AN INQUIRY INTO THE MARKETING VIEWS OF ALFRED MARSHALL

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PREFACE

In his writing and teaching, Alfred Marshall referred many times to "the many in the one and the one in the many." This signified the one link in a chain of theory and the theory made up of links. Each addition to our knowledge of a subject is a link which can contribute to a pattern of activity or a theory which might then be used to find answers to more specific problems. Many feel that marketing thought will ultimately be bound together in what constitutes a marketing theory. The historical development of economic thinking is one possible source by which students of marketing can acquire added perspective.

The growth in importance of marketing is a distinctly free enterprise phenomenon. It is particularly fitting that the works of Alfred Marshall, who performed a masterly task of expressing classical economics, be searched for whatever light they may shed on the study of marketing. It is the purpose of this dissertation to conduct that search.

I am especially indebted to Professor Umemura whose dissertation served as the inspiration for this study. Chapter II of this monologue is organized along the lines of his work and constitutes a summary of the thinking of some of the pre-Marshallian classical economists on

marketing matters. Without Dr. Umemura's dissertation, such a summary would have suffered considerably.

I am also indebted to my entire committee for their advice and encouragement throughout the preparation of this study. My wife, Elinor Groeneveld, efficiently typed the necessary drafts and has provided constructive comments on its progress.

TABLE OF CONTENTS

Chapter | Page

I. INTRODUCTION

Recent attempts to construct a theory of marketing have proceeded along a number of different lines. One of these channels represents an attempt to recognize marketing theory as a part of economics and to build upon the latter in forming one consistent body of thought. Other theorists have ventured far from existing theory in an attempt to establish a totally new approach to marketing with greater emphasis on the psychological and sociological bases for marketing actions. Regardless of the direction taken, a renewed interest has been shown in the views of classical economists on this subject matter. One such evidence of this interest is encompassed in the dissertation of George M. Umemura entitled, "Marketing Ideas of the Classical School."[1] Dr. Umemura studied the views of nine famous classical economists from Adam Smith to John E. Cairnes. In his conclusion, Umemura points up the need for added study of the marketing ideas of the neo-classical school. It is the purpose of the present study to follow his lead and investigate the views of the greatest neo-classicist and perhaps the greatest economist of them all.

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[1]George M. Umemura, "Marketing Ideas of the Classical School" (Unpublished Ph. D. Dissertation, Indiana University, 1951).

Little need be said to reveal the prominence of Marshall in the field of economics. Pigou refers to him as "master of those who know."[1] Economic historians have singled him out for high praise. L. H. Haney wrote of Marshall's impact on economics;

> By breaking down partitions, cutting windows, and adding rooms, he remodeled the Classical system so effectively that since the appearance of Principles of Economics in 1890, his "Neo-Classicism" has become recognized in the English-speaking world as the most secure, convenient, and harmonious stopping place now available for economic science.[2]

In another passage Haney states: "Marshall's synthesis, as we may call it, is not perfect, but it is a masterpiece, and as a whole has probably never been surpassed as an explanation of economic life."[3]

W. A. Scott refers to Marshall's Principles of Economics as "the most widely approved and most influential treatise on economics published in England in his generation."[4] P. T. Homer leaves no room for doubt concerning the eminence of the place of Alfred Marshall in economic circles. He starts his coverage of Marshall with the following words:

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[1]A. C. Pigou, Alfred Marshall and Current Thought (London and New York: Macmillan and Co., Ltd., 1953), p. 3.

[2]L. H. Haney, History of Economic Thought (Fourth edition; New York: The Macmillan Company, 1949), p. 637.

[3]Ibid., p. 638.

[4]W. A. Scott, The Development of Economics (New York and London: Appelton-Century-Crofts, Inc., 1933), p. 459.

During the generation that has passed since the appearance of his Principles of Economics, in 1890, Professor Alfred Marshall has occupied a position of practically undisputed preeminence among English-speaking economists. His name is linked reverently with the giants of the past, Adam Smith, Ricardo, and John Stuart Mill.[1]

Seventy years after the publication of his Principles of Economics writers of economic history continue to recognize his greatness. Taylor writes, "In the entire historic line of the great British economists, moreover, Marshall, I think, belongs in the company of Adam Smith and John Stuart Mill ...."[2]

It is the purpose of the present study to inquire into the views and methodology of Marshall as they relate to marketing. The intention is to identify these views rather than to serve as a critique. Marshall did not set out to write a theory of marketing and it would be unfair to attempt to criticize him for failing to do some things which were never part of his intentions. The more positive goal of this study is to identify Marshall's thinking on marketing and to look for whatever contribution to marketing theory (methodological or factual) may be suggested in the example he set by his pursuit of subject matter. To understand Marshall and his views fully the present study first examines the development of the views of marketing held by predecessors of Marshall in the classical

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[1]Paul T. Homan, Contemporary Economic Thought (New York and London: Harper and Brothers, 1928), p. 195.

[2]Overton H. Taylor, A History of Economic Thought (New York: McGraw Hill Book Company, Inc., 1960), p. 337.

school. This is done in Chapter II with the intent of viewing the marketing thought which Marshall inherited. The entire chapter will "set the scene" for further examination of Marshall's views. The content and structure of the second chapter parallels closely the subject matter covered by Dr. Umemura. The list of economists chosen by him to represent the classical school has been adopted to serve the same function in this study.

The third chapter of this study is an attempt to understand Marshall the man, and his approach to subject matter. It includes a brief biographical sketch, a discussion of some of the major influences upon the thinking of Marshall, and a study of his methodology. It is intended to identify the motivating forces in Marshall's life, to relate these to the task which he set for himself, and to furnish some insight into his general approach and methodology.

The chapters which follow (IV, V and VI) constitute the result of a search of the books, periodicals and personal letters written by Marshall in order to identify his views on a number of marketing subjects. Chapter IV examines Marshall's concept of demand and Chapter V treats a number of marketing subjects with which Marshall dealt. Chapter VI represents the views of Marshall on specific marketing functions. The order of presentation of subject matter in Chapters V and VI is somewhat arbitrary. An attempt has been made to include any reference or inference

by Marshall concerning marketing or its study. The final chapter is reserved for summarizing and tying together the most important phases of his concept of marketing. It constitutes an analytical approach to what has been learned previously. This chapter summarizes Marshall's awareness of marketing and attempts to weigh the contribution which he made to marketing thought.

Throughout this entire study the term marketing is used to denote those subjects customarily included in marketing curricula and in current marketing textbooks.

II. CLASSICAL THOUGHT CONCERNING MARKETING

The views of past thinkers on any specific subject are necessarily influenced by the importance which the thinkers attributed to the particular topic. Some expressed themselves on certain phases of topics whereas others may have avoided the individual topics altogether because they regarded the subject as foreign to their main line of thought. The present chapter seeks to identify the thoughts concerning marketing of a number of classical thinkers for the purpose of tracing the development of marketing thought up to the time of Marshall.

Marketing as Viewed by the Ancient Thinkers

A study of the views of marketing in ancient times leads inevitably to the writings of such greats as Plato, Aristotle, Cicero and others. Economics did not exist as a separate area of study but became part of some of the thinking of philosophers who contemplated the purposes of man's existence and codes of desirable conduct.

Since Plato expressed the belief that all human activity should contribute to better citizens of the state, those activities merely concerned with physical enjoyment are frowned upon. The one exception to this is the farmer.

Although marketing is viewed as a necessary function which contributes to the exchange of products, those persons performing this function "are the weakest in bodily strength."[1] Retailers are viewed as existing only to gather wealth. Plato states that citizens should be banned from this activity leaving the function to be performed, within a confined area, by foreigners. He advocates a high standard of practice and suggests that violators be punished harshly. Sellers would be forced to sell at only one price within a day's time. Further distrust of marketing is observable in Plato's writings by his statements that the ideal state should establish the prices which will limit profits while providing the retailer with a modest gain. The low status of retailing is due to Plato's fear that most people's desire for wealth is "base and shameful," and that retailing provides many opportunities for poor motivation toward wealth. When performed honestly, Plato regards retailing as a worthwhile occupation.

Aristotle is regarded as having a profound influence on ancient economic thought. Among the classes of society he recognizes, the third is made up of "traders, and by traders I mean those who are engaged in buying and selling, whether in commerce or in retail trade."[2] His ethically based philosophy calling for a fair exchange leads him to

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[1]Plato, "The Republic," The Dialogues of Plato, ed. B. Jowett (Vol. I; New York: Random House, Inc., 1937), p. 634.

[2]Benjamin Jowett, The Politics of Aristotle (Oxford: Clarendon Press, 1885), pp. 113-14.

a low opinion of retailers and retailing. He regards this function as "unnatural, and a mode by which men gain from one another."[1] Aristotle views the goal of retailing as the accumulation of wealth and, since this does not contribute to the basic needs of man, it is therefore undesirable.

The Roman Cicero regards retailers as practicing a dishonorable pursuit because profits would not materialize without a great deal of lying and misrepresentation. Wholesale trade conducted on a large scale without misrepresentation is viewed, however, as an honorable profession. Cicero implies that retailing trade appeals to the shifty and sly who accomplish their ends by subtle underhanded means.

The low status of marketing in ancient times is partly due to the lofty ideals set for mankind and partly to the practices of deceit which were observed in the market place. The ancients state that deceit necessarily accompanies marketing and tends to relegate the function to an inferior status. W. T. Kelley sums up the attitude of the ancient thinkers:

> The philosophers could not conceive of a mutuality of benefit from a mere exchange of goods, that is, that the buyer benefits because he gets something which is at the moment of greater utility to him than anything else on which he could spend the money and that the seller benefits from the margin out of which he derives his living. To the ancients, someone has to come off the worse in any transaction. Unfair tactics were presumed (perhaps with some justification, as

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[1] Ibid., p. 14.

ethical standards of trade might well have been low in those days)....[1]

The Middle Ages

With the fall of the Roman Empire, a feudal order was established in Europe which stratified all persons into groups with certain responsibilities and privileges. The guilds were prominent in establishing the prices of exchange as well as the standards and wages of skilled workmen. Soule notes that,

> The Christian church, by this time nearly universal in Europe, vied with the temporal authorities for power and strove to impose a moral order on the institutions of the time. As before, economic doctrines arose largely from this effort and were developed not as a separate body of theory but as part of a general moral code.[2]

The church and the writings of churchmen constitute the major scholastic efforts of the period. They established fairness as the basis for deciding economic issues. The leading writer of the period, St. Thomas Aquinas, applies the Golden Rule in judging the legality of business conduct. Both parties to an exchange are viewed as receiving equal values. Even though one party of the exchange has another strategically off balance, it is wrong to take advantage of his need for the item in obtaining a price greater than

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[1]William T. Kelley, "The Development of Early Thought in Marketing and Promotion," Journal of Marketing, Vol. XXI, No. 1 (July 1956), pp. 63-64.

[2]George Soule, Ideas of the Great Economists (New York: The New American Library of World Literature, Inc., 1958), p. 11.

what the article is worth. This just price principle permeates all Saint Thomas's thinking. His attitude resembles Aristotle's in that he looks upon marketing as sinful if carried on only for personal gain. This desire for gain is apparently viewed as insatiable - including no "honorable or necessary end."[1] Gain for an honorable end use, however, is considered as a worthwhile motive. Speculative trading falls in the dishonorable category.

Haney notes other characteristics of the period, "Agriculture was praised; manufacture did not displease God; but trade could not be pleasing to the Deity."[2]

The writers of the period are more concerned with laying down rules of conduct than establishing a theory of value. Just prices are dependent on the costs which go into the item. Labor costs are regarded as dominant. Each stratum of society has its specific labor cost based upon the standard of living which the stratum is expected to have.

The influence of the guilds had its effect on many of the marketing practices followed.

> But this monopoly was a public one and designed to be in the interest of the community; trade was regarded as a public opportunity. The idea of equality and of public benefit appears in such common regulations as that sales were not to begin before a certain hour,

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[1]Arthur Eli Monroe (ed.) Saint Thomas Aquinas' "Summa Theologica on Fraud Committed in Buying and Selling," Early Economic Thought: Selections From Economic Literature Prior to Adam Smith (Cambridge: Harvard U. Press, 1930), p. 63.

[2]Lewis H. Haney, History of Economic Thought, p. 96.

> that unsold goods could not be withdrawn until a certain time, and that raw materials - as tallow, for example - must not be sold to outsiders.[1]

In another context Haney states that the economic philosophy of the Middle Ages

> ...might be summed up in the doctrine of just price, which aimed to protect buyer and borrower from exploitation by subjecting economic motives to ethical appraisal under a sort of system of "rate regulation." Such regulation was directed toward enforcing ideals of duty, for the most part formulated and enforced by religious authority, but influenced by racial or local custom and occasional political upheavals.[2]

Marketing in the Mercantilistic Era

The evolutionary change from medieval time to the Mercantilistic era brought with it a greater nationalistic concern. This prompted men to think in terms of that trade which would be most successful in promoting a powerful state. Foreign trade was encouraged in an effort to achieve a favorable balance of trade - exporting more than was imported. Internal trade received little attention by the writers of the period.

The churchmen of the middle ages view the individual exchange as a transfer of equals and thought exchange should leave both parties the same amount of value with which they started. The Mercantilists state that all exchange is unequal and that what one party gains another loses.

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[1] *Ibid.*, p. 105.

[2] *Ibid.*, p. 108.

This view of the individual transaction is applied and foreign trade becomes the most important function in order that each nation may take advantage of others rather than be taken advantage of.

To stimulate foreign sales, policies and regulations were adopted to encourage the growth of the population, and to use labor longer and more efficiently in order to increase total production. Trade was facilitated by making more protection available during transportation and by simplification of financial exchange arrangements. In the efforts of nations to get more trade, powerful armies and navies served as a means of obtaining the respect of other nations. In addition underselling, honest dealing, and wise treaties were viewed as means of encouraging other nations to trade. Individual citizens were encouraged to work hard and to be thrifty so that imports other than gold could be minimized. "The wealth of the nation was not identified with the welfare of its population."[1] Production was directed to those goods wanted abroad rather than internally.

The concept of value changed greatly from the just price concept of the medieval churchman. No single value system can be recognized as that of the Mercantilistic era.

> Industrial developments led the Mercantilists to abandon the doctrine of just price, though traces of the idea may be found; and they were forced to give more consideration than their predecessors to

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[1]Soule, Ideas of the Great Economists, p. 27.

"extrinsic" or market values, and to the subjective elements therein. They maintained the concept of "intrinsic" value, however, and consequently did not make the clear distinction between value and utility that was necessary before much progress could be made. A cost theory of value, with the labor element emphasized, was held or implied by some of the most prominent writers.[1]

The era of Mercantilism resulted in the abandonment of the old custom of producing for the immediate area. It encouraged aggressive trading in certain industries by subsidies and monopolies. It weakened and destroyed the old ideas of trade and eliminated many of its barriers in opening the way for Capitalism. Attention was focused more sharply on the economic phases of man's existence.

The Physiocrats

The Physiocratic movement was largly a revolt against Mercantilism, or Colbertism. It was led by several French thinkers chief among whom was Quesnay. The movement was prompted by an inequality in taxation but went much further in prescribing an economic system to replace the Mercantilistic state.

Quesnay and his fellow Physiocrats express the belief that God had ordained a natural order. Letting each man achieve his own self interest consistent with the laws of nature is held to bring about the greatest happiness and prosperity. Abuses in marketing and business generally

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[1]Haney, History of Economic Thought, p. 141.

would not appear when freedom of competition was allowed to operate. To the Physiocrat nature is "not just something that existed, but also something to be obeyed."[1] Agriculture is regarded as productive while all other pursuits are unproductive. They state that nature works along with man only in agriculture, mining, fishing and other extractive industries in producing a surplus. Those activities which produced no surplus are not productive. Marketing is of little importance in this scheme because it is part of a "sterile class" including merchants, artisans and professional persons. Exchange means transfer of equal values, and functions which facilitate exchange merely serve to shift the wealth from one party to another. The equality connected with exchange implies that neither side loses nor gains in a transaction. This argument is used to defeat the Mercantilistic balance of trade doctrine. Value to the Physiocrat means market value as represented by price. For farm goods, this includes cost of production but is not limited to it. Market price is, however, viewed as being the result of the forces of supply and demand. The Physiocratic writings note that the production of manufactured goods resulted in no surplus. The price for these goods "were, or should be, based on labor cost. This view was a forerunner of the classical labor theory of value."[2]

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[1]Soule, Ideas of the Great Economists, p. 31.

[2]Ibid., p. 36.

Among the Physiocrats, Turgot, a latter day Physiocrat, expresses much more appreciation for the need of middlemen than Quesnay and recognizes that no one would continue to perform this function without a profit.

Marketing Views of the Classical Economists up to the Time of Marshall

Adam Smith

Smith is best known for his doctrine of free competition by which each man seeks his own self interest and which results in the greatest good for all. His price system of value is based on market forces working to arrive at market value. The famous example of the benefits of specialization of labor in the pin making industry points up the importance of the division of labor and in doing so he brings to the forefront the importance of exchange. Smith sees in human nature a natural tendency to exchange commodities.

> As it is by treaty, by barter, and by purchase, that we obtain from one another the greatest part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour.[1]

Nations could not acquire a higher standard without trade. Smith regards wholesaling and retailing as productive pursuits but services not connected with products are regarded as unproductive.

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[1]Adam Smith, The Wealth of Nations (Cannan edition; New York: Random House, Inc., 1937), p. 15.

> To Him [Smith], productive labor is activity which results in the creation of "vendible commodities" or adds to the value of such vendible commodities, whereas, work no matter how useful which only renders service is declared unproductive.[1]

The farmer and others in the extractive industries are of greatest productiveness. This group is followed by the manufacturer, the wholesaler and the retailer. He states that the "labor engaged in retailing is less productive than that engaged in wholesaling,"[2] because the capital invested in the former is more productive than the capital invested in the latter.

With Smith "consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer."[3]

Smith saw price as the primary consideration to most customers but recognizes the danger of fraudulent commodities being offered on the market. He views markets as organized places of exchange or as geographical areas. Prices in the market fluctuate around the natural price (cost of production), but monopoly pricing tends to widen the gap between market prices and natural prices. Smith frowns upon governmental regulations. They are viewed as evils of mercantilism which retard individual initiative.

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[1] Umemura, Marketing Ideas of the Classical School, p. 58.

[2] Ibid., p. 89

[3] Smith, Wealth of Nations, p. 625.

In the process of discussing the forward vertical integration of production and marketing under one firm, Smith recognizes that marketing (specifically the functions of the wholesaler and retailer) is a specialized work and the principles of the division of labor apply. As a result, he concludes that a retailer can perform his function better than a manufacturer attempting to control his product all the way to the consumer. Umemura points out Smith's awareness of such marketing functions as buying and selling, transportation, storage, market risk, market information, and market finance.

Thomas Robert Malthus

Although Malthus achieved lasting fame for his views on population, much marketing awareness is revealed in his writings. He unquestionably places the distribution of goods on a level with manufacturing in recognizing that both are productive. Umemura sums up some of Malthus' thinking by viewing some of the obstacles which Malthus saw to the growing prosperity of a nation. The primary obstacle is the ineffectiveness of demand. Population growth is observed as not being an effective stimulus to a continued growth. Malthus states that excessive saving slackens demand which in turn causes general under-consumption. A third obstacle to growth is a low propensity to consume. Malthus cites as evidence the experience of the Spanish in South America. A fourth point indicated by Umemura in his

listing of Malthus' views is that adequate demand is necessary in order to realize the benefits of machine production.

Malthus also argues that saving is not synomymous with effective demand and combats Say on the latter's assumption that demand is ever present. He says that insatiability of wants should not lead to ignoring the demand side and that, in reality, the gratification of existing wants inspire new wants. Advertising and sales promotion should be used to create new wants and products should conform to the wishes of the public. During the expansion of business activity, marketing is viewed as an important means of increasing the markets for products. In short, increased distribution of products will create new wants and a growing economy. Umemura notes that:

> In Malthus' writings lie the germ of the modern Keynesian theory that consumption must be sufficiently bolstered to permit a level of production which is compatible with full-employment in a dynamic economy.[1]

David Ricardo

Ricardo's deductive approach and his emphasis on distribution theory furnish a very limited discussion of marketing. The value of production is viewed as including the transportation of the commodities to market. Ricardo states that supply creates its own demand but that "it is not probable that he producer will continually produce

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[1]Umemura, Marketing Ideas of the Classical School, p. 104.

a commodity for which there is no demand."[1]

Ricardo reveals a strong faith in free competition and in the fact that demand and supply would establish price with the actual market level fluctuating around the natural price. In the long run, this natural price is the equivalent of the cost of production under free competition. He recognizes that this would not be true under monopoly.

Jean-Baptiste Say

Say goes further than his predecessors in defining what functions constitute production by defining the term as the "creation of utility." However, when he applies this to marketing activities he recognizes transportation as the main marketing activity that is productive. It produces place utility. Ownership utility from buying and selling is not recognized as production.

Consumption is viewed by Say as the goal of all economic activity and he advocates steps to protect the public from fraudulent practice. A distinction is made, however, between desirable and undesirable consumption. Purchase for ostentation is regarded as a waste but purchase of durable high quality items is viewed as desirable. Fashion goods that last for only a short time are considered a waste. Say considers as desirable all goods which give

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[1]David Ricardo, The Principles of Political Economy and Taxation (Everyman's Library Edition; London: J. M. Dent and Sons, Ltd., 1911), pp. 192-93.

a great deal of satisfaction in relation to the economic resources contained in them.

Despite these views of consumption, Say's writings are largly production or supply oriented. His famous law, "supply creates its own demand," is evidence of this emphasis. A single product's market is viewed as capable of being glutted but Say reasons that this would be balanced by another product which was in short supply. No such thing as a general state of overproduction is regarded as possible under free competition. Increased production automatically broadens markets for these goods. He concludes that the demand for one line of goods grows out of the supply of another and that the purchase of one commodity must effect the value of other products. This is evident from one of his writings:

> That, in every community the more numerous the producers, and the more various their productions, the more prompt, numerous, and extensive are the markets for those productions; and, by a natural consequence, the more profitable are they to the producers; for price rises with the demand.[1]

He goes on to say that this value is the result of

> ... forced circulation of products; for a value once created is not augmented in its passage from one hand to another, nor by being seized and expended by the government, instead of by the individual.[2]

Say states that one person's prosperity is dependent upon

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[1]Jean-Baptiste Say, A Treatise on Political Economy, trans. C. R. Prinsep (Philadelphia: Crigg and Elliot, 1844), p. 137.

[2]Ibid., p. 137.

the prosperity of others and one industry's success promotes the success of all others. From this he concludes that imports do not injure a country's economy because they must be paid for with native products or specie. Specie must have been bought with native products. Say's emphasis on production and his attitude toward government are revealed in the following:

> Encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen that production alone, furnished these means. Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption.[1]

Say reasons that when a product is consumed in satisfying some human want, this is justifiable, but that mere destruction of commodities is not. In either case, "the consumption, however, has opened no new market, but just the reverse."[2] Consumption for other than bonafide human wants offers

> ... no encouragement to future production but devours products already in existence. No additional demand can be created until there be new products raised; there is only an exchange of one product for another. Neither can one branch of industry suffer without affecting the rest.[3]

Say points out that low production brings with it depopulation, misery, and returning barbarism. "Such are

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[1] *Ibid.*, p. 139.

[2] *Ibid.*, p. 139.

[3] *Ibid.*, p. 140, n.

the concomitants of declining production, which are only to be remedied by frugality, intelligence, activity, and freedom."[1]

Say recognizes that supply and demand tend to balance off at the price level and that this level must cover the cost of production or suppliers will refrain from offering goods to the market.

Umemura reviews Say's views of marketing functions and finds an awareness of utility via storage and of the fact that a rapid stock turn will lessen the cost of financing. Say applies the division of labor principle in recognizing the contribution of wholesaling and retailing. Non-price competition is recognized in the form of advertising, trade marks, and fashion competition.

Say was essentially a free enterpriser, however, in believing that the individual following his own interest, is superior to governmental operation of markets. His advocacy of governmental participation in the economy, however, extends to the building of roads, canals, and harbors. Throughout his writings transportation receives a great deal of attention in relation to its effect on economic prosperity.

James Mill

James Mill also recognizes consumption as the ultimate goal of all economic activity. His writings, like

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[1] Ibid., p. 140.

most of his predecessors, however, are largely production oriented. He states that consumption always equals production thus agreeing with Say that general overproduction could not occur. Exchange is viewed by Mill as desirable and, the part played by the middleman is recognized. He also re-examines the function of the "carriers" in the exchange of goods. Mill shows a keen awareness that a larger population center warrants the existence of a specialty (single line) store, whereas rural areas have general stores.

Robert Torrens

Robert Torrens is notable in marketing circles because of his correction of some of the thinking of Adam Smith and Say. Adam Smith had ranked marketing as less productive than the extractive and manufacturing industries. Torrens combats this with several explanations of the importance of marketing and its contribution to the satisfaction of wants. He recognizes the importance of the specialization of labor and points out that this principle is also applicable geographically - each section of the country growing those crops which it can best produce. This emphasis leads him to elaborate on the importance of marketing. Torrens reasons that "marketing not only enables the division of labor to take place, but it also determines the degree to which specialization may be carried on."[1] In

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[1]Umemura, Marketing Ideas of the Classical School, p. 167.

another passage Umemura states that Torrens "points out that middlemen add to the exchangeable value of goods an amount equal to the normal rate of profit on invested capital plus operating expenses."[1] Torrens reasons that any regulation of exchange would be harmful and advocates free competition. Monopolies are viewed as equally distasteful in that they serve to raise prices.

John R. McCulloch

McCulloch advocates a free competitive economy as the best assurance of the consumers getting proper value in their purchases. The consumer is definitely regarded as the end and purpose of production and, although he should be protected from fraud, regulatory measures in the exchange system are frowned upon.

McCulloch reveals clearly the importance of exchange to him. The division of labor concept is emphasized in firmly justifying the function of middlemen and keeping costs at a minimum. McCulloch goes further, however, and recognizes this function as the driving spirit of industry. "Facility of exchange is, in truth, the vivifying principle, the very soul of industry; and no interruption is ever given to it without producing the most ruinous consequences."[2]

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[1] Ibid., p. 170.

[2] John R. McCulloch, Treatise on the Principles Practice and History of Commerce (Society for the Diffusion of Useful Knowledge. London: Baldwin and Cradock, 1833), p. 2.

In other passages he suggests that marketing is the real bond which enables an economy to have specialization. He contradicts statements by Say and others who do not recognize marketing in this important position and emphasizes that this function is just as productive as the extractive and manufacturing industries.

McCulloch disagrees with those governments which place ceilings on the spending of citizens in that this action constitutes an infringement of one's personal freedoms. He also feels that the establishment of a standard is an impossible task. Consumer credit, moreover, is viewed as encouraging undesirable extravagance in buying habits.

McCulloch objects to Malthus' arguments on underconsumption and attributes over-supply to misapplication of productive power rather than the propensity to consume. Demands are viewed as insatiable but the power to purchase is regarded as the deciding factor. This power to purchase grows out of production.

Cost of production is viewed as the ultimate determinant of price. This tendency is said to hold even though fluctuations occur. For monopolies, however, the demand for the available supply will determine price. McCulloch points out, however, that free competition prevails. He recognizes some of the limitations to a concept of price competition by observing that a trade mark of a manufacturer or middleman is assurance to the public of a certain quality and induces people to buy.

McCulloch reveals an informed knowledge of many of the marketing institutions including, retailing, wholesaling, agent middlemen, speculative merchants, and co-operatives. The latter's desire to eliminate the middlemen's profits is questioned along with their ability to provide any real advantage to their members. Among the marketing functions he emphasizes is transportation, which he views as providing an essential contribution to exchange.

Nassau William Senior

Buying motives are observed by Senior as including a love of variety and distinction. He reasons that human wants are insatiable, however, and therefore discounts the possibility of a general glut on the market. As a result demand does not figure prominently in his thinking. Limited over-production is possible because a producer could misjudge the public ability to purchase. He states that cost of production determines value under free competition but that perfect competition is not a reality. Imperfect competition predominates.

Senior classifies marketing as productive (justified by the division of labor) and middlemen are viewed as capitalist abstainers who use funds for productive pursuits.

John Stuart Mill

From the period 1850-1890, J. S. Mill's writings were regarded as the most significant in Economics. These years of Mill's prominence are important to this study in that they constitute a forty year period leading up to the publication of Marshall's Principles of Economics.

J. S. Mill expresses the belief that a condition of general over-production is untenable. He explores the issue of whether it is ability to pay or desire to own which is the basis for an under-consumption thesis. He dismisses the ability to buy by noting that all sellers are also buyers. Those dollars expended in production ultimately go to people who in turn become buyers and therefore have the ability to buy. Mill dismisses desire to own as a cause of over-production by describing the absence of desire as the failure of producers to devote their resources in the right directions. Since neither ability nor desire can be lacking, demand exists for an additional supply. He blames commercial crises on speculative purchases and the tightening of credit.

At least one of his writings on the subject of the effect of consumption on production reveals the evolution of his thought. Some of his early statements indicate an assumption of demand.

> To produce, implies that the producer desires to consume: why else should he give himself useless labour? He may not wish to consume what he himself

> produces, but his motive for producing and selling is the desire to buy.[1]

Mill introduces the time factor into the discussion of automaticity of demand. In doing so he recognizes that:

> Although he who sells, really sells only to buy, he need not buy at the same moment when he sells; and he does not therefore necessarily add to the immediate demand for one commodity when he adds to the supply of another.[2]

The inclination to sell coupled with the general inclination to defer all purchases as long as possible brings on periods of general excess. He states that "no one, after sufficient explanation, will contest the possibility of general excess, in this sense of the word."[3]

Mill reconciles the latter statement with his earlier expression by treating money as a commodity so that in times of low activity the low demand for goods is balanced by an offsetting demand for money. He summarizes his views on the subject as follows:

> The essentials of the doctrine are preserved when it is allowed that there cannot be permanent excess of production, or of accumulation; though it be at the same time admitted, that as there may be a temporary excess of any one article considered separately, so may there of commodities generally, not in consequence of over-production, but of a want of commercial confidence.[4]

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[1]John Stuart Mill, Essays on Some Unsettled Questions of Political Economy (Reprinted, London: The London School of Economics and Political Science University of London , 1948), p. 49.

[2]Ibid., p. 70.

[3]Ibid., p. 70

[4]Ibid., p. 74.

Mill says that cost of production, together with the ordinary profit, determine the market price of a commodity in a competitive economy. Fluctuation will occur but the market price and "necessary price" are identical. He also notes, however, that far too often the assumption of competition is incorrectly applied - attributing this to the desire of economists to recognize laws necessary to the existence of economics as a science.

Mill notes that the arrival at a single price under the competitive assumption calls for buyers to act rationally in their own interest. He recognizes that in reality buyers may lack full knowledge of prices and quality of goods and that, instead of changes in market prices, the retail margin is often changed. The importance of custom is also noted in influencing price level. Mill concludes that imperfect competition is more prevalent than is true competition.

Retailing is recognized as an important function by Mill. He predicts that the large retail firm will replace many small retailers because of the principle of specialization and economies of operation. He notes that increased competition would bring lower priced, higher volume sales.

Vertical integration by firms is seen as having some advantage to the firm which has a market close to the place of manufacture. Mill reasons that firms with distant markets have management problems which more than offset the possible advantages.

Mill says that consumer co-operatives could contribute to reducing the cost of marketing, freeing many people for production. He regards middlemen of his time as being quite inefficient. Umemura points out that in Mill's "enthusiasm of the co-operative movement, the problem of securing competent management is not considered very serious."[1]

Government non-interference is an important phase of Mill's thinking but he softens this in calling for protection for the public against injurious and fraudulent practices.

Umemura states in his summary of the views of J. S. Mill that:

> Although considerable attention is given to marketing by Mill, a question arises concerning his understanding of the true nature of the exchange system and its significance in the over-all production process. In the first place, he reserves the term, producer only to those engaged in the creation of form utility and considers middlemen as a group subordinate to the producers. Secondly, he implies that the productivity of marketing flows exclusively from the creation of place utility and seems to overlook the value added by the activities of buying and selling.[2]

John E. Cairnes

Cairnes reasons that price levels tend toward the cost of production in a competitive economy but much evidence exists that many markets have imperfect competition.

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[1]Umemura, Marketing Ideas of the Classical School, p. 253.

[2]Ibid., pp. 260-61.

In dealing with imperfect competition, he discusses the number of different prices which appear in retail markets. Consumers are viewed as incapable or unable to make price comparisons. The buyer cannot be expected to be informed on the market and products. The seller is, as a result, in a commanding position.

Cairnes expresses a feeling that too much capital is tied up in retailing. This together with low turnover contribute to the retailer getting too high a margin, which in turn causes higher prices. He holds out some hope that consumer co-operatives will lower prices and cause the excess capital to be directed elsewhere.

Summary of Classical Views on Marketing

The Classical economists agree that consumption is the ultimate goal of all productive activity. All were advocates of free competition as the regulator of our economy and of marketing practice. They generally, however, advocate some form of legislation to prevent fraud in the market place. Almost all express the view that cost of production determines the level of price under competition. Malthus is the lone dissenter. Most classical economists state that over production is impossible because production (supply) creates its own demand. This thinking leads most classical economists to consider supply much more heavily than demand. Malthus disagreed with this emphasis,

however, and points to savings as leading to underconsumption.

Most of the classical economists reveal some insight into the practice of certain marketing functions. They make no effort to classify them, however, and their mention of marketing functions appears only incidentally in their writings.

Specialization serves the classical economists as the basis for exchange and, as a result, justifies the existence of the middleman and his functions. Umemura points out that the specialization concept led the classical economists to economic explanations of the following issues: (1) the justification for retailers and wholesalers, (2) the development and existence of various types of retail business, (3) the limitation of forward vertical integration and, (4) the level of total marketing cost.

Most classical economists relegate marketing to the status of tertiary importance behind agriculture and manufacturing. McCulloch is a notable exception by his insistence that marketing is just as important as the other functions.

The effect of the thinking of these classical economists upon Marshall is difficult to weigh. An assessment of this effect must wait until Marshall's views have been examined thoroughly. Before doing so, however, we turn to consideration of other influences upon Marshall.

III. THE DEVELOPMENT OF MARSHALL'S APPROACH

The values of Marshall are probably best observed by noting some of the environmental influences upon him. The decisions made at key points in his life are also important indicators of some of his basic motivation. These decisions and the reasoning behind them reveal Marshall's approach to the subject matter of economics and to the methodology which he preferred.

Brief Biographical Sketch

In many ways Marshall's boyhood is reminiscent of that of J. S. Mill. Both had stern fathers who guided their studies at an early age. Marshall's father, however, was a bank cashier and a man of very little means. He worked young Marshall long hours in the evenings to impress upon him the value of the classics. At school Marshall was later described by a fellow student as, "small and pale, badly dressed, looked overworked, and was called 'tallow candles'; that he cared little for games, was fond of propounding chess problems, and did not readily make friends."[1] His father was preparing

[1] J. M. Keynes, Essays in Biography (London: Macmillan and Co., Ltd., 1933), p. 153.

Marshall for the Evangelical Ministry. At the age of 19, Marshall was assured a three year fellowship at St. John's College, Oxford, to pursue this end. He had reservations about continuing to learn the classics and preferred to spend his time with mathematical books - against the wish of his father. Marshall turned down the Oxford scholarship leading to the ministry and obtained admission to St. John's College, Cambridge. The money for this move came on loan from an uncle. Mathematics became his major concern but he did not give up his intention to be a missionary. In 1865, on the strength of his being named Second Wrangler, he was awarded a fellowship and decided to devote himself to the study of molecular physics. He repaid his uncle by teaching mathematics for a short while at Clifton. This brief period is important in the life of Marshall because it brought him into contact with a small group of intellectuals headed by Henry Sidgwick. On returning to Cambridge, Marshall joined the Grote Club (a philosophical discussion group) in which Henry Sidgwick also figured prominently. Because of the influence of these groups, Marshall's plans to study physics were, "cut short by the sudden rise of a deep interest in the philosophical foundation of knowledge, especially in relation to theology."[1]

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[1] Ibid., p. 160.

Great intellectual change was occuring generally in this period. Darwin's Origin of the Species and Herbert Spencer's First Principles had just been written. Keynes speaks of the influences upon Marshall as follows:

> Metaphysical agnosticism, Evolutionary progress, and - The one remnant still left of the intellectual inheritance of the previous generation - Utilitarian ethics joined to propel the youthful mind in a new direction."[1]

The study of metaphysics led to the study of ethics which in turn led Marshall to the study of economics. Dr. Bateson, Master of St. John's College took an interest in Marshall and persuaded the college to create a special lectureship for him in Moral Science. This included logic and some study of Bentham, but Marshall soon dedicated himself entirely to the study of economics. Marshall held the lectureship for nine years until his marriage in 1877. His marriage automatically resulted in the forfeiture of his fellowship and he left Cambridge to become First Principal of University College, Bristol and to be Professor of Political Economy. This college was intended to bring higher learning to Bristol. Marshall lectured in the evenings to a class made up primarily of young businessmen. Because of a dislike for some of the administrative tasks and because of ill health, Marshall gave up his administrative function after holding the office for a few years, and limited himself to being a Professor of Political Economy. In 1883 he accepted an

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[1] Ibid., p. 164.

invitation to Oxford as lecturer but, within two years, he returned to Cambridge to be a Professor of Political Economy. He continued to teach at Cambridge until his retirement in 1908 and continued to live there until his death in 1924.

Utilitarian and Ethical Influence

Marshall grew up in a period when the Utilitarian influence prevailed. This influence is apparent in many of the major decisions in his life and in his attitude toward many subjects. The study of the classics seemed very useless and without any real purpose. Mathematics appeared to Marshall to be much more useful and enjoyable. Throughout his life Marshall put much emphasis on preparing his writing so as not to be beyond the businessmen of his time. This was his reason for not publishing much of his work immediately after its completion. Marshall worked out his diagrams and mathematics first, but, because of his fear of being viewed as impractical by businessmen, he would hold back for a number of years while he wrote a word description of his conclusions. His final manuscript would inevitably relegate the mathematics and diagrams to footnotes and appendices. This strong desire to be practical has been the basis for a great deal of criticism of him for the delays brought about by his extreme concern for practicality. This line of criticism emphasizes that

economics could have progressed more rapidly if Marshall had made his findings known sooner. Marshall was also criticized for these delays because they opened up for question Marshall's right to primacy, if not originality.

Marshall's father had dictated the boy's preparation for the ministry. Despite his love and aptitude for mathematics, Marshall still planned to become some form of foreign missionary even after his decision to study molecular physics. Despite the fact that he, in time, became an agnostic concerning theological matters, his basic faith in the Christian morals and ideals continued to play a strong part in his life. Keynes states that "though he had given up Theology, he believed more and more in Religion."[1]

Marshall's ethical side became wedded to his utilitarian emphasis in the establishment of goals for himself. This is shown by the sequence of studies that were of concern to him; molecular physics, metaphysics, ethics and economics. Ethics without utility was not satisfying. He felt that much of the working men's lack of leisure and study detracted from their "fullness of life." He had been told that the resources of production did not allow for much leisure and study for the working man, and this led him to the study of economics. He

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[1] *Ibid.*, p. 162.

didn't really intend to stay with it, but hoped for a "speedy return to the luxuriance of pure thought."[1] Once started on this path, however, he never relented and, in the end, indicated that the more he learned about the subject, the more he realized his own ignorance of it.

To Marshall, the study of economics was the study of "mankind in the ordinary business of life."[2] He has been described as a blend of "pastor" and "scientist."[3] It was the pastor or reformer in him which determined the direction of his efforts. This caused him to emphasize the policy implications of whatever he did. In all these efforts to evolve principle to policy, "He put the reformer in himself above the scientist."[4]

Marshall was a true "Victorian" in his attitude toward the disciplinary effect of work. This led him to believe in the "free enterprise system" not only for its efficiency but for the great moral and disciplinary influence which it encourages through the work and responsibilities of the individual. He moralizes in much of his

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[1]Alfred Marshall, Money Credit and Commerce (London: Macmillan and Co., Ltd., 1917), Preface.

[2]Alfred Marshall, Principles of Economics (Eighth edition; New York: The Macmillan Company, 1948), p. 1.

[3]Keynes, Essays in Biography, p. 169.

[4]G. W. Guillebaud, "Davenport on the Economics of Alfred Marshall," The Economic Journal, Vol. XLVII (March 1937) p. 23.

writing with opinions as to the effect of work and thrift on one's character. Viner speaks of this when he notes that Marshall retained "an evangelistical note in his economics even after he had on intellectual grounds eliminated it from his theology."[1] His standards carried with them a "lurking puritan suspicion of the morality of any highly pleasurable activity."[2] This is revealed in his attitude toward chess, and mathematical and diagramatic methods. The latter "were Marshall's fleshpots, and if he frequently succumbed to their lure it was not without struggle with his conscience."[3]

In discussing the value of leisure Marshall points out that every country has some who follow the Buddhist doctrine - that of seeking serenity by the elimination of as many wants and desires as possible. On the other extreme he notes that some feel that the growth of new wants is good in that it stimulates people to accomplish more. He sides with Herbert Spencer in condemning the latter as "supposing that life is for working, instead of working for life."[4] Marshall sums up his entire attitude toward work in the following statement:

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[1]Jacob Viner, "Marshall's Economics, in Relation to the Man and His Times," The American Economic Review, Vol. XXXI, No. 2 (June 1941) p. 230.

[2]Ibid., p. 231.

[3]Ibid., p. 728.

[4]Marshall, Principles of Economics, p. 136.

> The truth seems to be that as human nature is constituted, man rapidly degenerates unless he has some hard work to do, some difficulties to overcome; and that some strenuous exertion is necessary for physical and moral health. The fulness of life lies in the development and activity of as many and as high faculties as possible. There is intense pleasure in the ardent pursuit of any aim, whether it be success in business, the advancement of art and science, or the improvement of the condition of one's fellow-beings. The highest constructive work of all kinds must often alternate between periods of over-strain and periods of lassitude and stagnation; but for ordinary people, for those who have no strong ambitions, whether of a lower or a higher kind, a moderate income earned by moderate and fairly steady work offers the best opportunity for the growth of those habits of body, mind, and spirit in which alone there is true happiness.[1]

Despite his ever active puritan conscience, Marshall assumed an analytic posture admired by most economists. Haney refers to this posture in his statement on the subject. "No economist who has attempted to construct a body of economic theory has ever been freer from unsound philosophical or psychological implications."[2]

The Methodology of Marshall

Marshall's training and inclination toward mathematics frequently leads him to tackle economic problems using this tool along with involved diagrams. The extent to which he values the use of the mathematical tool for the economist can be seen by the following statement:

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[1] *Ibid.*, p. 136.

[2] Haney, *History of Economic Thought*, p. 651.

> But a training in mathematics is helpful by giving command over a marvellously terse and exact language for expressing clearly some general relations and some short processes of economic reasoning; which can indeed be expressed in ordinary language, but not with equal sharpness of outline. And, what is of far greater importance, experience in handling physical problems by mathematical methods gives a grasp, that cannot be obtained equally well in any other way, of the mutual interaction of economic changes.[1]

Schumpeter comments on the widespread popular success of Marshall's principles as follows:

> Marshall's historic - philosophical culture tells on almost every page - his analytic scheme is embedded in a luxuriant frame that conciliates and comforts the layman. The analytic skeleton does not grin at you. It is clothed in flesh and skin which Marshall's observation of business facts found it easy to assemble. All that meant more than homely and palatable illustration. But it also meant that this theory "went down" with the general public as no other comparable treatise on economic theory ever did.[2]

Edgeworth, probably the foremost mathematical economist of the era wrote, "Marshall, who desired of all things to be useful, deferred to the prejudices of those whom he wished to persuade."[3] Coupled with his great desire to be useful was a fear that persons would look at the mathematics and the diagrams and feel that they understood, whereas in reality they might not. These fears led Marshall to be very skeptical of the mathematical form

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[1] Marshall, Principles of Economics, Appendix D, p. 781.

[2] Joseph A. Schumpeter, "Marshall's Principles: Semi-Centennial Appraisal," American Economic Review, Vol. XXXI, No. 2 (June 1941), p. 243.

[3] A. C. Pigou (ed.), Memorials of Alfred Marshall (London: Macmillan Co., Ltd., 1925), pp. 66-67.

of economic expression. Numerous examples can be cited from letters to other economists indicating his distrust of mathematical expression. In a memoriam to Marshall, C. R. Fay indicates that Marshall had told him that "this part of economics was now-a-days much overdone."[1] A letter to A. L. Bowley in 1906 shows clearly the place of mathematics in his methodology:

> ... I know I had a growing feeling in the later years of my work at the subject that a good mathematical theorem dealing with economic hypotheses was very unlikely to be good economics: and I went more and more on the rules - (1) Use mathematics as a short-hand language, rather than as an engine of inquiry. (2) Keep to them till you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics. (6) If you can't succeed in 4, burn 3. This last I did often.
>
> I believe in Newton's Principia Methods, because they carry so much of the ordinary mind with them. Mathematics used in a Fellowship thesis by a man who is not a mathematician by nature - and I have come across a good deal of that - seems to me an unmixed evil. And I think you should do all you can to prevent people from using Mathematics in cases in which the English Language is as short as the Mathematical ....[2]

Despite this tremendous skepticism of mathematics on the part of Marshall, it appears that he made liberal use of it but was careful to conceal it. Pigou speculates on Marshall's view of mathematics:

> I do not, therefore, think that he would have been an enemy of mathematical model makers such as Mr. Kalder

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[1] *Ibid.*, p. 77.

[2] Letter from Alfred Marshall to A. L. Bowley, February 27, 1906. *Memorials of Alfred Marshall*, p. 427.

> and Professor Hicks, provided only that the models were designed to elucidate "real" problems, were not worshipped for their own sake and were not allowed to run away with their makers. Marshall was essentially and emphatically pro-realism. So far as he was against mathematical elaborations in economics, it was only because he feared that realism might suffer. Convince him that any particular line of mathematical attack would indirectly help realism and he would have been its enthusiastic friend.[1]

Other economists speak much more strongly concerning Marshall's view of mathematics and its real place in his work.

> ... Even if we choose to disregard the fact that rigorous proofs cannot be supplied except in ways which are mathematical in essence though in simple cases they need not be mathematical in form, the further fact remains that performance of the Marshallian kind practically presupposes a mathematical schema. And this Marshall refused to admit. He never gave full credit to the faithful ally. He hid the tool that had done the work.[2]

Marshall was a great collector of statistics (quantitative data). He looked for whatever insight they might furnish to his study.

> The study of theory must go hand in hand with that of facts: and for dealing with most modern problems it is modern facts that are of the greatest use. For the economic records of the distant past are in some respects slight and untrustworthy; and the economic conditions of early times are wholly unlike those of the modern age of free enterprise, of general education, of true democracy, of steam, of the cheap press and the telegraph.[3]

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[1] Pigou, Alfred Marshall and Current Thought, pp. 11-12

[2] Schumpeter, American Economic Review, Vol. XXXI, No. 2, p. 240.

[3] Marshall, Principles of Economics, p. 39.

At the same time, however, he was skeptical of statistics in the same way that he was skeptical of mathematics. Statistics were viewed as being "full of traps."[1] Marshall felt that people should "read through figures and reach the real values, the true relative proportions represented by them."[2] His main fear of statistics and mathematics is prompted by the danger of persons being convinced that there are single causes to much of what happens in the economy. He emphasizes that not all causes can be expressed in statistics, and, therefore, the statistics should be placed in a position "subordinate to general considerations."[3] The element of time is viewed as presenting grave difficulties in the collection of useful statistics. All his skepticism concerning the abuse and difficulties of statistics does not prevent Marshall from recognizing the desirability of continued progress in the tendency toward the accumulation and publication of statistics. His hopes in this regard go as far as to suggest that adequately useful demand schedules would be constructed in the future.

On several occasions Marshall had to defend his methodology relative to its static vs. dynamic and

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[1]Marshall, Memorials of Alfred Marshall, Letter to A. L. Bowley, p. 429.

[2]Ibid., p. 429.

[3]Ibid., p. 429.

mechanical vs. biological character. He rules out the condition of "absolute rest" as devoid of meaning but points out that statical issues are viewed as being at relative rest. This latter term is said to be descriptive of a man on a train. The problem he faces of packing his luggage on a rack is static in that, although the train is moving, the relationship of the luggage to the things around it is static. However, a dynamic factor could cause the luggage to fall. This analogy is used to point out the danger in dealing with what appears on the surface to be a statical problem.

In considering dynamic problems Marshall considers the solar system and its many actions and interactions. The reciprocal influences of the Earth, Venus, and the Sun and all other planets, cannot be handled by arithmetic but could be handled by very complicated mathematics. This refined apparatus cannot, however, be applied to economics.

> The most helpful applications of mathematics to economics are those which are short and simple, which employ few symbols; and which aim at throwing a bright light on some small part of the great economic movement rather than at representing its endless complexities.[1]

Marshall thought it impossible to have dynamic solutions, in the physical sense, to economic problems. He states that the use of physical analogies in statical solutions

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[1]A. Marshall, "Distribution and Exchange," Economic Journal, Vol. VIII, No. 29 (March 1898), p. 39.

furnishes a crude starting point to dynamic problems. The physical analogy is reserved for the early stages of economic reasoning. As the economist gets further into the problem, biological analogies are viewed as being more appropriate.

> I think that in the later stages of economics better analogies are to be got from biology than from physics; and consequently, that economic reasoning should start on methods analogous to those of physical statics, and should gradually become more biological in tone.[1]

Marshall warns against the early abandonment of the mechanical analogy in giving examples of more sophisticated mechanical analogies which do display reaction to environment. The difficulty, however, in staying with this type of analogy lies in the quantity of forces at work.

> "Progress" or "evolution," industrial and social, is not mere increase and decrease. It is organic growth, chastened and confined and occasionally reversed by decay of immeasurable factors, each of which influences and is influenced by those around it; and every such mutual influence varies with the stages which the respective factors have already reached in their growth.
>
> In this vital respect all sciences of life are akin to one another, and are unlike physical sciences. And therefore in the later stages of economics, when we are approaching nearly to the conditions of life, biological analogies are to be preferred to mechanical, other things being equal.[2]

Marshall observes the changes that occur in man's nature over time. He points out that although man's entire nature changes only slowly, that some elements of

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[1] Ibid., p. 39

[2] Ibid., pp. 42-43.

his character are of a modern growth. He observes that although the strategy which man uses in his conflict with nature remains fairly stable, the "tactics" of men who have experienced vastly different conditions will be quite diverse.

Marshall states that the purpose of the static method is to focus on some center which is, or is assumed to be, at rest or is moving at a steady rate. Also it can be used to observe the tendencies of various elements to adapt relatively to the center. In proceeding along these lines Marshall concludes that the factor leading to the most difficulties, and therefore most important, is the element of time. For this reason he proceeds to classify forces according to how long it takes them to work. Those forces which are not important for a particular time period are impounded in Ceteris Paribus. When a whole generation is taken as the time period even factors having an indirect bearing must be considered because their cumulative effect might be very great. In all this it is recognized that the narrower the issue is made, the more exact is its treatment, and greater its departure from real life.

Another methodological device used by Marshall was that of the representative firm. He thought this conception to be biological rather than mechanical and compared it to the selection of a representative tree from

the forest. The leaves of a tree go through many (yearly) cycles as the tree grows steadily upward to maturity. Long period analysis of the tree's growth can be understood while neglecting its yearly leaf cycles. Such an approach is said to be comparable to the use of a representative firm. Such a firm is representative of the progress of the industry of which it is a part and has its share of internal and external economies. Marshall felt that by adopting this device he could avoid a great many of the difficulties connected with the individual firm in problems of long period equilibrium.

Much of the apparatus with which Marshall worked is intended as methodology. He points out that his treatment of abstractions is intended not to organize knowledge but to achieve the powers to arrange knowledge. Devices such as the representative firm are preliminary only, and are not to be used in the later stages of work. These devices should not represent an end in themselves but should merely serve as a means.

> Their function is to give increased power to common sense, and common sense is the outcome of the experience of life, our own life and that of our ancestors; it is a biological rather than a dynamical instrument.[1]

Marshall continually emphasized that many of the supposed findings of economics were really only instruments for the pursuit of greater knowledge. He was very

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[1] Ibid., p. 52.

insistent upon this matter and cautioned his colleagues and students concerning what they were working with. He even felt it necessary on this subject to speak publicly in criticism (a rarity for Marshall) of some of the great classical economists.

> Ricardo and his closest followers did not make clear to others, it was not even quite clear to themselves, that what they were building up was not universal truth, but machinery for universal application in the discovery of a certain class of truths. While attributing high and transcendant universality to the central scheme of economic reasoning, I do not assign any universality to economic dogmas. It is not a body of concrete truth, but an engine for the discovery of concrete truth.[1]

Marshall stresses the evolutionary development of social institutions and the customs of life. This approach shows the extent of influence the historical economists had upon Marshall. Book I of the first edition of the Principles of Economics was directed toward an explanation of this evolutionary development. His later work showed a stronger tendency toward the historical approach. At one point he states that the findings of the historical school of economists

> ... help us to understand the central plan, as it were, of the Divine government of the world: such studies have led directly to some broad generalizations that have greatly illumined our path with a broad diffused light, which has made our notions as to the general bearing of economic problems clearer and truer.[2]

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[1]Keynes, Essays in Biography, p. 208.

[2]An inaugural lecture given by Marshall at Cambridge in 1885, Memorials of Alfred Marshall, ed. Pigou, p. 165.

Book I of Industry and Trade has retained a largely historical view of trade in England, France, Germany, and the United States. Marshall notes that the findings of economic theorists would be valid only for the stage of development which the economists were currently experiencing. The premises which are an integrated part of the current social environment will not hold as that environment changes.

Marshall's methodology is, in summary, a blend of what had constituted several schools of approach. The mathematicians recognized his abilities but were disappointed in the absence of mathematics in Marshall's final presentations. His use of the historical or the institutional approach pleased the members of those schools. His basic inheritance from the classical school of using the hypothetical method and formal logic remained and permits him "to store much of his wine in their bottles."[1] Marshall felt strongly that the study of psychology would contribute to the determination of economic motives. He once said, in his late years, that if he had it to do over again, he would study psychology.[2] There is no room in his attitude for "confined" thinkers who limit themselves to one discipline. He sets his standards high and uses whatever methods show promise of furnishing the truth.

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[1]Homan, Contemporary Economic Thought, p. 279.

[2]Keynes, Essays in Biography, p. 214.

Marshall's Aims

Marshall defines economics as dealing with:

> ... mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.[1]

He identifies what he regards as the main object of the subject matter:

> The main concern of economics is thus with human beings who are impelled, for good and evil, to change and progress. Fragmentary statical hypotheses are used as temporary auxiliaries to dynamical - or rather biological - conceptions: but the central idea of economics, even when its Foundations alone are under discussion, must be that of living force and movement.[2]

Throughout his writing Marshall stresses the continued dominance of the moral in setting the course for the economists: "Ethical instincts and philosophy are the supreme authority in deciding what aims are fit to be pursued."[3] He regards poverty as the cause of the "degradation of a large part of mankind"[4] and says the search for the answer to poverty "gives to economic studies their chief and their highest interest."[5]

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[1]Marshall, Principles of Economics, p. 1.

[2]Ibid., Preface, p. xv.

[3]Marshall, "The Old Generation of Economists and the New," an address delivered in Cambridge, England, October 29, 1896. Reprinted in the Quarterly Journal of Economics, Vol. XI (January 1897), pp. 124-25.

[4]Marshall, Principles of Economics, p. 3.

[5]Ibid., p. 4.

In other passages Marshall indicates that economics should be a science and should "deal with the measurement of the regularities or uniformities which he is sure exist in individual and social action."[1] He recognizes that there are many hidden forces in human nature but he chooses to concentrate the study of economics on those which can be measured directly or indirectly in money.[2] This is viewed as the major reason why economics deserves to be a special field of study. The monetary measurement enables economics to be more scientific than the other branches of the social sciences.

Marshall realized the enormity of the utilitarian-ethical task he had set for hemself. In an address given in 1881, he summed up his task and its immensity as follows:

> The work I have set before myself is this: - How to get rid of the evils of competition while retaining its advantages.
>
> Representing the question by a length of a thousand miles, the progress I hope to make towards it may be four or five inches. If I make that progress I shall be well contented with my life - if I make it possible for the next man to start four or five inches nearer the goal than I have ....[3]

Marshall makes it quite clear that he feels the economist should represent the consumer on economic issues.

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[1]Haney, History of Economic Thought, p. 639.

[2]A more complete discussion of money as a measure of motives is reserved for Chapter IV.

[3]An address delivered by Marshall in Bristol, Sept. 29, 1881, cited by Keynes, Memorials of Alfred Marshall, p. 16-17.

> The pushing and clamorous few in an economic controversy are often a group of producers who can put their case well, and who show great energy and resource in making themselves heard. Hence has arisen the tradition that the economist is generally on the side of the consumer as against the producer: He aims at protecting the unvocal many who consume the products of a particular trade, against the vocal few who speak on behalf of the trade.[1]

It was inevitable that Marshall's environment would influence his approach to subject matter and the perspective which he assumed. In turn, both his environment and his approach influence the emphasis he places on various phases of economics. The next three chapters constitute a study of Marshall's position on phases of his economics thst have a bearing on the subject of marketing.

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[1]Marshall, Quarterly Journal of Economics, Vol. XI, p. 126.

IV. MARSHALL'S CONCEPT OF DEMAND

The present chapter is concerned with Marshall's thoughts on human wants, the measurement of these wants, and how both became part of his concept of demand. The place of demand in Marshall's overall plan is treated briefly at the end of the chapter to provide some perspective on this phase of his work.

Human Wants and Consumption

Marshall expresses belief that wants are insatiable in the sense that humans possess an endless variety of desires. The savage is viewed as having few, but the civilized human acquires a growing variety of more subtle wants as civilization progresses. New findings open up entirely new classifications of wants, and custom dictates how far the members of each "caste or industrial grade"[1] may or may not go in adopting a style of dress. These conventional wants increase constantly as the minimum acceptable standard rises. "There is a constant increase both in that variety and expensiveness which custom requires as a minimum, and in that which it tolerates as a

[1] Marshall, Principles of Economics, p. 87.

maximum."[1] Custom dictates that goods which were formerly luxuries should now become conventional necessities and men (and women) are viewed as seeking distinction by adopting a certain manner of dress. Marshall points out that a small cabin satisfies the need for shelter, but, as people become involved in what he regards as higher activities, a larger house becomes a necessity.

> Leisure is used less and less as an opportunity for mere stagnation; and there is a growing desire for those amusements, such as athletic games and travelling, which develop activities rather than indulge any sensuous craving.[2]

Marshall lays much stress on the fact that it is the activities of people which determine their wants - not the reverse.

> Speaking broadly therefore, although it is man's wants in the earliest stages of his development that give rise to his activities, yet afterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities.[3]

This is an important conclusion on Marshall's part because it forms the basis for the degree of importance which demand and the theory of consumption play in his entire approach to economics. Activities and efforts are viewed as determining wants. He doesn't specifically define what he means by activities and efforts but it is clear that the individual's interests and the type of

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[1] Ibid., p. 87.

[2] Ibid., p. 89.

[3] Ibid., p. 89.

work have an important influence upon wants. Thus Marshall has taken the demand side and said, in effect, that one must study how people are spending their time as the basis for any theory of consumption. He disagrees with Jevons' and Banfield's contention that the theory of consumption furnishes the scientific basis of economics.

> For much that is of chief interest in the science of wants, is borrowed from the science of efforts and activities. These two supplement one another; either is incomplete without the other. But if either, more than the other, may claim to be the interpreter of the history of man, whether on the economic side or any other, it is the science of activities and not that of wants.[1]

From this line of thought Marshall reasons that his treatment of demand (placed early in his Principles of Economics) must be elementary and rather formal. He regards the study of wants as an immense undertaking involving other social sciences.

> The higher study of consumption must come after, and not before, the main body of economic analysis; and, though it may have its beginning within the proper domain of economics, it cannot find its conclusion there, but must extend far beyond.[2]

Marshall does not delve deeply into the classification of wants and desires. He says that this is "a task not without interest; but it is not needed for our purposes."[3] He uses the necessity - luxury, durable - single use, joint and composite demand classifications

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[1]Ibid., p. 90.

[2]Ibid., pp. 90-91

[3]Ibid., p. 91, n. 1.

along with frequent references to conventional necessaries. The classifications of Hermann are referred to by Marshall as the main work of the type up to that time. He quotes some of the classifications of wants used by Hermann:

> ... Absolute and relative, higher and lower, urgent and capable of postponement, positive and negative, direct and indirect, general and particular, constant and interrupted, permanent and temporary, ordinary and extraordinary, present and future, individual and collective, private and public.[1]

Marshall's recognition of the joint demand for complementary products leads him to consideration of the demand for items which are components of a finished product. A derived demand exists for those products because their demand grows out of the demand for the finished product. He also refers to this as indirect demand. The reverse situation is also recognized - that of one product which has several groups of users - and Marshall calls this composite demand.

The Measurement of Demand

Marshall claims that economics can be regarded as a science mainly because it is concerned with that part of human action which comes closest to being controlled by motives which are measurable. This does not mean that he suggests that the motives themselves could be measured

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[1] *Ibid.*, p. 91, n. 1.

or that the measurement thus obtained is entirely accurate "for if it were, economics would rank with the most advanced of the physical sciences; and not, as it actually does, with the least advanced."[1] Although desires cannot be measured directly, Marshall states that they can be measured indirectly. The purchase of the product is regarded as the manifestation of desire and the price paid for the product becomes the measure of what a person will pay to satisfy that desire. It is in no sense a direct measure of realized satisfaction but it is regarded by Marshall as the best means available.

> He [the buyer] may have desires and aspirations which are not consciously set for any satisfaction: but for the present we are concerned chiefly with those which do so aim; and we assume that the resulting satisfaction corresponds in general fairly well to that which was anticipated when the purchase was made.[2]

Marshall clarifies his meaning further in pointing out that desire and the realized satisfaction vary considerably. Some desires are impulsive and "many are based on expectations that are never fulfilled."[3] He is quite specific in the recognition of his compromise in the use of price as an indirect measure of satisfaction.

> The two direct measurements [desire and realized satisfaction] then might differ. But as neither of them is possible, we fall back on the measurement which economics supplies, of the motive or moving

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[1] _Ibid._, p. 26.

[2] _Ibid._, p. 92.

[3] _Ibid._, p. 93, n. 1.

> force to action: and we make it serve, with all its faults, both for the desires which prompt activities and for the satisfactions that result from them.[1]

Marshall notes the wide differences which exist between people. The differences between wants from one person to the next make it impossible to think in terms of measuring marginal utility in general. In comparing the desires of two different people, Marshall remains consistent with his earlier statements when he observes that "the quantities of two desires on the part of two different persons cannot be compared directly; their measures may be compared, but not they themselves."[2]

The Law of Demand

Although Marshall recognizes the variety of wants to be insatiable, he points out that the want for a particular product is definitely limited. He calls this the law of satiable wants or the law of diminishing utility and defines it as follows:

> The total utility of a thing to anyone (that is, the total pleasure or other benefit it yields him) increases with every increase in his stock of it, but not as fast as his stock increases.[3]

This law serves as the basis for Marshall's law of demand. He uses terms such as marginal purchase and

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[1] Ibid., p. 93, n. 1.

[2] Ibid., p. 97, n. 1.

[3] Ibid., p. 93.

marginal utility in connection with that purchase which is just induced. He also points out that the law of diminishing utility is valid only for a length of time during which the tastes of consumer remain unchanged. Marginal demand price is identified as a measure of the marginal utility of the product to the consumer. Marshall shows that the marginal utility of money is greater to a poor man than to a rich man. He also points out how the demand of individuals for certain products would be very erratic. Both these considerations lead Marshall to be concerned about groups in our society rather than with the individual:

> ... In so far as the motives of that action are measurable by a money price; and in these broad results the variety and the fickleness of individual action are merged in the comparatively regular aggregate of the action of many.[1]

By being concerned with groups rather than individuals, Marshall's markets have included in them "rich and poor, old and young, men and women, persons of all varieties of tastes, temperaments and occupations."[2] The peculiarities of one are thus assumed to be balanced off by the peculiarities of others within the group.

Marshall's Law of Demand states that "the amount demanded increases with a fall in price, and diminishes

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[1] Ibid., p. 98.

[2] Ibid., p. 98.

with a rise in price."[1] In explaining this law he uses a demand schedule in the body of his text but demand curves appear only in the footnotes.

Difficulty in Measuring Demand

The task of obtaining exact demand prices is viewed by Marshall as having many difficulties. The first one, which he notes causes much difficulty in economics, is time. The dilemma noted is that time is necessary for the "collection of full and trustworthy statistics."[2] It is also observed that the effects of a cause usually do not appear at once but are spread out over a period of time. The lengthening of the time of collection of data leads to difficulty in isolating the particular cause under consideration in the given market. Other disturbing causes conflict with those the economist is trying to separate.

The effect of change in the purchasing power of money is noted, but Marshall indicates that this difficulty can be overcome by the use of a purchasing power index. He also notes the difficulties of change in business cycle, and of changes in fashion, taste and habit. The ability of a consumer to postpone his purchase of some products more easily than others adds further difficulty to the

[1] Ibid., p. 99.

[2] Ibid., p. 109.

measurement of demand prices. The importance of quality changes is also discussed to emphasize further the difficulties of measuring demand.

Marshall discusses the ambiguity relevant to the use of some statistics available at the time. He says that they frequently show goods as "entered for consumption as soon as they pass into the hands of dealers; and consequently an increase of dealers' stocks cannot easily be distinguished from an increase in consumption."[1] Marshall notes that the dealer and consumer prices are influenced by different causes and should not be so combined. Consumers will demand fewer products at higher prices but if the price is expected to remain high, dealers will desire to increase their stocks.

A clear but general statement of the task of measurement and the difficulties connected with it is offered in Marshall's Principles of Economics.

> We desire to obtain, if possible, a series of prices at which different amounts of a commodity can find purchasers during a given time in a market. A perfect market is a district, small or large, in which there are many buyers and many sellers all so keenly on the alert and so well acquainted with one another's affairs that the price of a commodity is always practically the same for the whole of the district. But independently of the fact that those who buy for their own consumption, and not for the purposes of trade, are not always on the look out for every change in the market, there is no means of ascertaining exactly what prices are paid in many transactions. Again, the geographical limits of a market are seldom clearly drawn, except when they are marked out by the sea

[1] Ibid., p. 112.

> or by custom-house barriers; and no country has accurate statistics of commodities produced in it for home consumption.[1]

Marshall notes the difficulty of obtaining a complete list of demand prices. People were viewed as being accustomed to paying an amount within a certain range and attempts at obtaining a complete list of demand prices became concerned with prices at which the commodity has not been sold. The demand schedules (and demand curves) are therefore viewed by Marshall as being "conjectural except in the neighbourhood of the customary price; and the best estimates we can form of the whole amount of the utility of anything are liable to large error."[2] From a practical standpoint he regards this point as unimportant because our real concern is for the area around the customary price.

Despite these apparent difficulties Marshall continues to look for ways of gathering the information which would show a causal relationship between variations in prices and variation in amounts which people would purchase. He suggests shopkeepers could, with reasonable accuracy, keep records of most of their customers. This information would include customer incomes, hours of work, and wage rates. Marshall suggests that all this and much more could be used by the shopkeeper to study reactions to

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[1] Ibid., p. 112.

[2] Ibid., p. 133.

price under varying circumstances and for varying classes of customers. By gathering such information Marshall retains a hope of establishing an approach which would be fruitful.

> It is only by thus piecing together fragmentary laws of demand that we can hope to get any approach to an accurate law relating to widely different prices. (That is to say, the general demand curve for a commodity cannot be drawn with confidence except in the immediate neighbourhood of the current price, until we are able to piece it together out of the fragmentary demand curves of different classes of society....)[1]

An alternative approach in attempting to determine how the different classes spend their earnings on necessities, comforts and luxuries is that of collecting budgets of persons from different classes. Marshall cites the work of the statistician Engel in collecting information on consumption in Saxony in 1857. Some of the traps in this work (which marketing research people face today) are recognized by Marshall:

> Working-men's budgets have often been collected and compared. But like all other figures of the kind they suffer from the facts that those who will take the trouble to make such returns voluntarily are not average men, that those who keep careful accounts are not average men; and that when accounts have to be supplemented by the memory, the memory is apt to be biassed by notions as to how the money ought to have been spent, especially when the accounts are put together specially for another's eye. This borderground between the provinces of domestic and public economy is one in which excellent work may be done by many who are disinclined for more general and abstract speculations.[2]

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[1] Ibid., p. 114.

[2] Ibid., p. 115, n. 1.

Elasticity of Demand

Marshall discusses elasticity (or responsiveness) of demand and the many influences upon it. He says that elasticity "in a market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price."[1] This expression is as specific a definition of elasticity as Marshall makes in the body of his texts. Nowhere in the body of the text of the Principles of Economics does he even refer to elasticity as a specific numerical measurement. He refers to elasticity being high or low in given situations, but the body of his text does not even make reference to percentage changes up or down resulting from price changes. He does include, in a footnote elaborating on the statement quoted above, a numerical value or elasticity.

> We may say that the elasticity of demand is one, if a small fall in price will cause an equal proportionate increase in the amount demanded: or as we may say roughly, if a fall of one per cent. in price will increase the sales by one per cent.; that it is two or a half, if a fall of one per cent. in price makes an increase of two or one half per cent. respectively in the amount demanded; and so on. (This statement is rough; because 98 does not bear exactly the same proportion to 100 that 100 does to 102.)[2]

Marshall continues in the footnote to explain the geometric significance of elasticity. Elasticity, as a

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[1] Ibid., p. 102.

[2] Ibid., p. 102, n. 1.

numerical measure, however, is unmistakably played down by Marshall. He does go on, however, to discuss generally the effects of several determinants of elasticity.

Income status is viewed as having a major effect on the degree of elasticity. In a footnote Marshall illustrates the effect of price for green peas upon the rich, the middle class, and the poor. Time and place differences are also noted along with consideration of relative scarcity. The differences in elasticity from one product to another are discussed with much consideration given to the necessity vs. luxury classification of products. The elasticity of competitive products is discussed along with consideration of the number and variety of uses of one product in relation to its elasticity. The likes and dislikes of people, exclusive of their income class, are discussed relative to their development from place to place and at different times.

In a list compiled by Keynes, with Professor Edgeworth's help, the treatment of elasticity was among the seven most significant contributions of Marshall.

> In the provision of terminology and apparatus to aid thought I do not think that Marshall did economists any greater service than by the explicit introduction of the idea of "elasticity."[1]

He goes on to point out the importance of the elasticity concept in noting that Marshall's was "virtually

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[1] Keynes, Essays in Biography, p. 228.

the earliest treatment of a conception without the aid of which the advanced theory of Value and Distribution can scarcely make progress."[1]

Marshall's treatment of elasticity has since opened up applications of the elasticity concept to many phases of economics. Pigou lists some of them and speculates as to how well they would have been received by Marshall.

> We have partial and total elasticity of production, elasticity of discounting, elasticity of expectations and elasticity of substitution. I doubt whether Marshall would have thought much of any of those; I can hear him sniff at economic toys. But there is one extension of his device, which on my guess - it cannot be any more than a guess - he would have been pleased with. This is the device of setting beside his price elasticity an income elasticity of demand, an elasticity, that is to say, relating changes in the quantity of a commodity demanded to changes in the purchaser's income in the same way that price elasticity relates them to changes in the commodity's price. This notion he would, I think, have pronounced illuminating and useful.[2]

Marshall's treatment of the income effect on satisfaction follows very closely that of Bernoulli. He reasons that, after a person has enough to subsist, the satisfaction from income increases "by equal amounts with every equal successive percentage that is added to his income; and *vice versa* for loss of income."[3] In a footnote, the above statement is clarified by means of numerical examples:

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[1] *Ibid.*, p. 228.

[2] Pigou, *Alfred Marshall and Current Thought*, pp. 24-25.

[3] Marshall, *Principles of Economics*, p. 135.

> That is to say, if £30 represent necessaries, a person's satisfaction from his income will begin at that point; and when it has reached £40, an additional £1 will add a tenth to the £10 which represents its happiness-yielding power. But if his income were £100, that is £70 above the level of necessaries, an additional £7 would be required to add as much to his happiness as £1 if his income were £40: while if his income were £10,000, an additional £1000 would be needed to produce an equal effect.[1]

Marshall supplements this with recognition of the fading satisfaction from luxury products to which one had become accustomed. Additional contributing factors to the fading satisfaction are "the weariness of age, or at least an increase of nervous strain; and perhaps even habits of living that lower physical vitality, and diminish the capacity for pleasure."[2]

Consumer Surplus

Marshall observes that people would quite frequently be willing to pay more than the market price rather than go without a product. When this occurs the consumer is said to have had a surplus of satisfaction. The amount a person would pay over and above the actual market price rather than do without is taken as a measure of the consumer surplus. He cites such products as matches, salt, a penny newspaper, or a postage stamp as examples of products

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[1] *Ibid.*, p. 135, n. 1.

[2] *Ibid.*, p. 135.

which furnish a consumer surplus. The resultant benefit of buying at the lower price, the consumer surplus, is viewed by Marshall as resulting "from his opportunities, or from his environment."[1]

Marshall's discussion of consumer surplus constitutes a recognition of the fact that both parties to an exchange may benefit from the transaction. The ancients had taken the view, in their skepticism of trading practices, that the merchant gained by taking advantage of the buyer. The earlier classical economists tended to speak of exchange as being a transfer of equal values. Marshall, by way of his consumer surplus, recognizes that exchange is not necessarily such a transfer but can result in benefit to both parties. His emphasis concerning consumer surplus is, however, on the buyer's side of the exchange.

Marshall points out that price is not any measure of the real worth of an item. Using the examples of tea and salt he states:

> ...Though he [man] spends for instance much more on tea than on salt, yet salt is of greater real worth to him; and that this would be clearly seen if he were entirely deprived of it.[2]

This is another way of noting that "we cannot trust the marginal utility of a commodity to indicate its total utility."[3] He also notes that the total utilities

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[1] Ibid., p. 125.

[2] Ibid., p. 129.

[3] Ibid., p. 129.

of the products used for the same purpose cannot be added together to get the total utility of the two together. Despite the many problems which Marshall notes relevant to the measurement of demand, the measurement of consumer surplus, and the collection of usable statistics, he maintains a hope that this study would bear fruit in time.

> It is perhaps not unreasonable to hope that as time goes on, the statistics of consumption will be so organized as to afford demand schedules sufficiently trustworthy, to show in diagrams that will appeal to the eye, the quantities of consumers' surplus that will result from different courses of public and private action. By the study of these pictures the mind may be gradually trained to get juster notions of the relative magnitudes of the interests which the community has in various schemes of public and private enterprise; and sounder doctrines may replace those traditions of an earlier generation, which had perhaps a wholesome influence in their time, but which damped social enthusiasm by throwing suspicion on all projects for undertakings by the public on its own behalf which would not show a balance of direct pecuniary profit.[1]

Brief Treatment of Demand in Marshall's Overall Scheme

Almost all economic historians recognize Marshall's synthesis of demand and supply as his greatest contribution to economics. He is given credit for taking the demand side as developed by the Austrians and Jevons, and combining it with the cost analysis of the supply side as developed by the classical school. Marshall uses the two

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[1] *Ibid.*, pp. 492-93.

to explain his main concern - the determination of value. The effectiveness of his treatment is recognized by Keynes:

> The unnecessary controversy, caused by the obscurity of Ricardo and the rebound of Jevons, about the respective parts played by Demand and by Cost of Production in the determination of Value was finally cleared up. After Marshall's analysis there was nothing more to be said.[1]

Marshall's efforts to accord equal status to demand and supply are evident in some of the analogies which he used to explain their relationship. One famous analogy likens demand and supply to the blades of a pair of scissors.

> The "cost of production principle" and the "final utility" principle are undoubtedly component parts of the one all-ruling law of supply and demand; each may be compared to one blade of a pair of scissors. When one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not one to be made formally, and defended deliberately.[2]

Value is viewed as being determined at the equilibrium point of demand and supply. In another analogy the equilibrium is viewed as corresponding to a number of balls resting against one another in a basin. If one is moved, the entire relationship of the balls is changed. Substitution at the margin takes place between the use of factors of production and between the various products (one being money) of consumption. By clearly stating all

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[1]Keynes, Essays in Biography, p. 222.

[2]Marshall, Principles of Economics, p. 820.

of these relationships, Marshall unified the thinking on economics more closely than it had been for many years.

The time factor has a vital influence upon the relative importance of demand and supply in determining value. This leads Marshall to distinguish between market values and normal values. In short periods the demand is the most powerful factor in clearing the market but, as the period lengthens, the forces of the economy act and react in arriving at a value which tends, under competition in the long run, to equal the cost of production. Market value is thus a short run and normal value is a longer run concept of value.

> Thus we may conclude that, as a general rule, the shorter the period which we are considering, the greater must be the share of our attention which is given to the influence of demand on value; and the longer the period, the more important will be the influence of cost of production on value. For the influence of changes in cost of production takes as a rule a longer time to work itself out than does the influence of changes in demand.[1]

Throughout his entire treatment of demand Marshall places a great deal of emphasis on the interrelationship of one product's demand to another. He also stresses that changes in either supply or demand have an important effect upon the opposite side of the market. The following statement indicates the importance of these relationships to him:

> ... No one part of the problem can be isolated from the rest. There are comparatively few things the

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[1] Ibid., p. 349.

> demand for which is not greatly affected by the demand for other things to the usefulness of which they contribute; and it may even be said that the demand for the majority of articles of commerce is not direct but is derived from the demand for those commodities to the making of which they contribute, as materials or as implements. And again this demand, because it is so derived, is largely dependent on the supply of other things which will work with them in making those commodities. And again the supply of anything available for use in making any commodity is apt to be greatly influenced by the demand for that thing derived from its uses in making other commodities: and so on.[1]

The present chapter has dealt with the demand side of Marshall's overall scheme. His most complete expression of this phase of his work is concentrated in Book Three of his Principles of Economics. Marshall had much to say on other marketing subjects but the treatment of these topics is much more widely dispersed. The next two chapters (Chapters V and VI) constitute an attempt to identify the views of Marshall on several additional marketing subjects.

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[1] Ibid., p. 403.

V. MARSHALL'S VIEWS ON SEVERAL MARKETING TOPICS

In addition to his discussion of demand there is substantial treatment in Marshall's writings of a wide variety of marketing topics. Some of these topics can easily be classified along the lines of what have come to be known as the marketing functions and these will be taken up in Chapter VI. Other related topics bearing a close relationship to marketing and the study of marketing theory deserve attention, however, despite the fact that they may deal with widely varying topics within the marketing field. Among these are Marshall's attitude toward the study of business, the hope he held for a theory based on consumption, his concepts of markets and marketing costs, his notions on the development of retailing, and his consideration of the fairness of trade practices. This chapter will treat these subjects.

The Study of Business

Marshall credits Adam Smith with seeking out important causes that are often hidden below the surface. He states that the economist's job is to find the existing uniformities so that actions can be reduced to law. The

fundamental causes are viewed as being, to some extent, capable of scientific treatment, but the actions of the market are viewed as not having any great amount of uniformity.

> The fitful and irregular incidents of the market cannot for the greater part be reduced to order, and brought directly within the grasp of scientific machinery. But, when those causes which act with tolerable uniformity are understood, and their effects allowed for, then the residuary effects of other causes stand out prominently. The investigation of the results that can be brought under law thus helps towards the understanding of those which cannot; and thus science is able indirectly to lend her aid in unravelling the tangled skein of the events of actual life.[1]

The pursuit of the social studies presents some real problems and Marshall counsels students of these subjects:

> There is however a special difficulty in social studies. No one can have first-hand knowledge of any considerable part of the conditions and other facts relevant to any issue. Therefore the first duty of every student is to be diffident: and his second is to shun controversy.[2]

Marshall notes the growing complexity of the business world. He expresses the belief that initiative is important but that, to an increasing extent, it must be coupled with sound training in business matters. Sources of information for use in business are available at every turn for those who can think clearly in their use.

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[1]Lecture given by Marshall, 1885, Memorials of Alfred Marshall, pp. 157-58.

[2]Alfred Marshall, Industry and Trade (Third edition; London: Macmillan and Co., Ltd., 1920), p. 679.

> The ordinary newspaper press and special trade journals now supply at a nominal cost detailed information on nearly every affair, in which a business man is interested; and he can supplement it more quickly than formerly by confidential information as to any matter of private interest. He can, if he will, know all that is happening at home and abroad in regard to things in which he is interested as buyer or seller; what new sources of supply are being opened up; what new demands are growing and which of them are likely to be permanent; what new technique is being tried, and how the trials are going: what new uses of by-products are being developed; and what progress is being made by industries cognate to his own, on which its progress may largely depend.[1]

Although the natural abilities of the mechanics, clerks, and office boys were sufficient to start many of the great firms of America, Marshall expresses a belief that more methodological organization will occur in the future. He reveals himself as a reader of Andrew Carnegie, and agrees with him that the modern scientific training for youth is superior to the mechanical training of the past. The new order of thinker is said to be without prejudice for his own ideas and willing to adopt the latest methods regardless of who discovered them. By thinking clearly, avoiding false pride, and using the available information, the modern approach can win out. Training of this type is recognized as a job for the university.

> Thus America, while following the lead of Germany in the subtler technical applications of science, is pioneering applications of a broad University training in the conduct of business.[2]

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[1] _Ibid._, p. 360.

[2] Marshall, _Industry and Trade_, p. 361.

Marshall notes that the education of many of the ablest businessmen and statesmen was confined to the classics. He discredits the significance of this fact, however, by pointing out that

> ... nearly every boy, who has had first-rate educational advantages in childhood, has gone to a classical school; and that nearly all the ablest pupils from such schools have gone to Universities, at which a knowledge of Greek and Latin is required, and classical studies have had a chief place.[1]

Although Marshall recognizes the importance of the contribution of practical men of business, he expresses a belief that much of the real progress comes from those who seek answers for their own sake.

> ... But the greater part of the work, which lies at the bases of those advances, is made by other men with different motives and different methods. It is made by mere students: that is, by men who labour, not with reference to the attainment of any particular practical end, but in search of knowledge for its own sake.[2]

This type of searcher is viewed as grouping related data and studying the many relations to bring out some general laws of "causation, tendency, or coexistence."[3] This work is viewed as being separate and distinct from the practical and:

> Some of these architectonic workers, but not many, have the power and the will to embody their ideas in specific practical inventions of commercial value: and occasionally a man will be found, who combines the

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[1] Ibid., pp. 820-821, n. 1

[2] Ibid., p. 203.

[3] Ibid., p. 203

> faculties and aptitudes required for high scientific research with those of a great business administrator.[1]

Marshall expresses a belief that the student will press to the end the consequences of his subject while the practical man would use ideas only as long as they help him in achieving his practical aims.

The Study of Consumption - Its Scope and Emphasis

Marshall leaves no room for doubt concerning his recognition of the importance of consumption. In addition to pointing out that the economist should represent the consumer, he is specific in stating that:

> ... Consumption is the end of production; and all wholesome consumption is productive of benefits, many of the most worthy of which do not directly contribute to the production of material wealth.[2]

This represents a departure from the views of many of the classical economists who treated nonproductive consumption as a dead end for products.

Traders are viewed by Marshall as furnishing a productive service even though no physical product results from their efforts. They are recognized as producers of utilities which are just as vital as those involving change of form. Marshall also clarifies consideration of the efficiency of marketing activities.

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[1] Ibid., p. 203.

[2] Marshall, Principles of Economics, p. 67.

> It is sometimes said that traders do not produce: that while the cabinet-maker produces furniture, the furniture-dealer merely sells what is already produced. But there is no scientific foundation for this distinction. They both produce utilities, and neither of them can do more: the furniture-dealer moves and rearranges matter so as to make it more serviceable than it was before, and the carpenter does nothing more. The sailor or the railway-man who carries coal above ground produces it, just as much as the miner who carries it underground; the dealer in fish helps to move on fish from where it is of comparatively little use to where it is of greater use, and the fisherman does no more. It is true that there are often more traders than are necessary; and that, whenever that is the case, there is a waste. But there is also waste if there are two men to a plough which can be well worked by one man; in both cases all those who are at work produce, though they may produce but little. Some writers have revived the mediaeval attacks on trade on the ground that it does not produce. But they have not aimed at the right mark. They should have attacked the imperfect organization of trade, particularly of retail trade.[1]

The common use of the categories of production and marketing by economists seems inappropriate to Marshall because it carries with it the implication that marketing is not productive. He first sought another term but then decided to continue using the classifications.

> Thus the common distinction between "productive" industries and others rests on no scientific basis. But it corresponds to a division, which plays a considerable part in economic studies; the objections to coining a new term to take its place are very great; and for the present at least we must be content to use it.[2]

Marshall recognizes differences between productive consumption and ultimate consumption. He notes that

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[1] Ibid., pp. 63-64.

[2] Marshall, Industry and Trade, p. 170.

wholesale buying is much more rational than is retail buying, but points to the final consumer as "the ultimate regulator of all demand."[1] The study of demand, Marshall points out, had been neglected by earlier economists because they did not have much more to say on the subject than what was apparently everyday knowledge. He detects a growing prominence of the subject, however, and points out some of the reasons.[2] The first reason for the growing interest in demand is held to be the growing recognition that Ricardo placed too much emphasis on the cost of production. Secondly, more rigorous reasoning habits on the part of economists are viewed as focusing special attention upon demand. The third and final reason for increased interest in demand is brought about by the question of,

> ... whether our increasing wealth may not be made to go further than it does in promoting the general wellbeing; and this again compels us to examine how far the exchange value of any element of wealth, whether in collective or individual use, represents accurately the addition which it makes to happiness and wellbeing.[3]

The increasing interest in demand and consumption grows as a reaction to previous neglect, but Marshall fears that it is showing signs of swinging too far in the other direction. His primary thesis in this regard,

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[1]Marshall, Principles of Economics, p. 92.

[2]Marshall, Industry and Trade, p. 845.

[3]Marshall, Principles of Economics, p. 85.

as pointed out in Chapter IV of this study, is that demand and supply are but two equally necessary sides to a transaction.

Marshall does not specifically weigh Say's Law but does discuss the basic issue of whether demand must automatically follow supply. In this context he quotes Mill as recognizing that all sellers are inevitably buyers, and that the doubling of supply would constitute the doubling of purchasing power. Marshall elaborates, however, on the fact that potential purchasing power may never become actual.

> But though men have the power to purchase they may not choose to use it. For when confidence has been shaken by failures, capital cannot be got to start new companies or extend old ones.[1]

The interdependency of the entire process is emphasized when Marshall recognizes that the curtailment of production means people earn less and consequently buy less. "Thus commercial disorganization spreads: the disorganization of one trade throws others out of gear, and they react on it and increase its disorganization."[2] Marshall's chief concern in this context seems to be with the demand of individual firms for the product of other firms despite the fact that he expresses, in another context, a recognition of the ultimate consumer as the final

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[1] Ibid., p. 710.

[2] Ibid., p. 711.

regulator of trade. This emphasis continues to be evident in his discussion of the effect of confidence on the strength of an entire economy.

> The chief cause of the evil is a want of confidence. The greater part of it could be removed almost in an instant if confidence could return, touch all industries with her magic wand, and make them continue their production and their demand for the wares of others. If all trades which make goods for direct consumption agreed to work on, and to buy each other's goods as in ordinary times, they would supply one another with the means of earning a moderate rate of profits and of wages. The trades which make fixed capital might have to wait a little longer; but they too would get employment when confidence had revived so far that those who had capital to invest had made up their minds how to invest it. Confidence by growing would cause itself to grow; credit would give increased means of purchase, and thus prices would recover. Those in trade already would make good profits, new companies would be started, old businesses would be extended; and soon there would be a good demand even for the work of those who make fixed capital. There is of course no formal agreement between the different trades to begin again to work full time, and so make a market for each other's wares. But the revival of industry comes about through the gradual and often simultaneous growth of confidence among many various trades; it begins as soon as traders think that prices will not continue to fall: and with a revival of industry prices rise.[1]

The above discussion does not lead Marshall to the study of consumer confidence but leads him to emphasize production and credit. The confidence he recognizes continues as largely a businessman's confidence and production and credit become the basic areas requiring study.

> It is true that in times of depression the disorganization of consumption is a contributory cause to the continuance of the disorganization of credit and of production. But a remedy is not to be got by a study

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[1]Ibid., p. 711.

> of consumption, as has been alleged by some hasty writers. No doubt there is good work to be done by a study of the influence of arbitrary changes in fashion on employment. But the main study needed is that of the organization of production and of credit. And, though economists have not yet succeeded in bringing that study to a successful issue, the cause of their failure lies in the profound obscurity and ever-changing form of the problem; it does not lie in any indifference on their part to its supreme importance. Economics from beginning to end is a study of the mutual adjustments of consumption and production: when the one is under discussion, the other is never out of mind.[1]

Concept of Markets

The term market is used by Marshall in his writings to refer to "the whole of any region in which buyers and sellers are in such free intercourse with one another that prices of the same goods tend to equality easily and quickly."[2] He quotes Jevons, in apparent agreement, that a market need not be confined to any locality, entire town, or section of the country if there is free and close communication between the traders of the area. This gives rise to consideration of the degree to which the market is perfect. Perfect markets tend to have the same prices for identical items throughout the market. The expense of transportation is considered in noting that in large markets the prices, even in a perfect market, will differ to the extent of transportation cost differences. New

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[1] *Ibid.*, p. 712, n. 1.

[2] *Ibid.*, p. 324.

inventions in communication and transportation are viewed as contributing to breadth of markets - more so in some than others. He discusses the differences between markets and points out that for a product to be widely traded it must be "in general demand, cognizable and portable."[1] The securities of the international stock exchanges are singled out as meeting these requirements, along with minerals such as gold and silver, whereas at the opposite extreme are custom made, perishable, and bulky goods. Market considerations involving space influence the level of equilibrium (market price and quantity) but this consideration is recognized as being much more involved when varying time periods are treated.

In most of Marshall's writings the market is viewed as an exchange area where transactions take place. In this area both supply and demand are considered to be forces which are of equal strength at the equilibrium prices.

Occasionally Marshall uses the term market to refer to a group of people having a special interest in a product.

> In all its various significations, a "market" refers to a group or groups of people, some of whom desire to obtain certain things, and some of whom are in a position to supply what the others want. A market may consist of all the inhabitants of a town, or of the whole country: or it may consist in effect only of those of them who have a special interest in

[1] *Ibid.*, p. 326.

> something, as for instance zinc or leather. In some cases, dealings over the whole Western World may be worked out in such constant unison as to justify the phrase "world-market."[1]

Marketing Costs

As pointed out earlier, Marshall expresses the view that the marketing function is itself the production of utilities just as those activities that are commonly labeled as production. The necessity for this function receives further emphasis when he states that the production of goods is of little avail until they are marketed, and notes that the "costs of marketing often double or treble the price received by producers, before the thing reaches the consumers."[2] In further examination of the justification of marketing costs he states that expenses for marketing activities are within reasonable means:

> ... In a survey by broad and by long, it appears that traders as a class do not earn much more than adequate remuneration for their work, their capital and their risks. With few exceptions, the field is open; and there is nothing to prevent the influx of new energies where good profits are to be had with abnormal ease.[3]

Although the above constitutes his conclusion on the justification of marketing costs, Marshall expresses

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[1] Marshall, Industry and Trade, p. 182.

[2] Ibid., p. 275.

[3] Ibid., p. 280.

concern over the effect of credit on the relationship of the number of traders to the number needed. He reasons that, because producers frequently supply goods to wholesalers and retailers on credit, the real risk bearing "does not move downwards as fast as it appears to do."[1] The absence of such risk on the wholesale and retail level is viewed as fostering an abundance of traders (especially retailers) in some countries.

> ... There is probably some ground for suggestions that there are more traders in many countries than are needed for their work. Such suggestions are strengthened by the observation that advantages of situation or connection sometimes enable a trader, though without any special faculty of artistic or other discrimination, to make very high profits on small sales.[2]

The costs of marketing present some problem to the type of analysis which Marshall would like to have pursued, but separation of marketing costs for individual products is difficult or impossible.

> ... With a few exceptions, the costs and risks of marketing any one commodity cannot be separated from those of others, which are handled in the same businesses. Each of the trades of the fishmonger, the greengrocer, the grocer, the milliner, etc., has a more or less clearly defined set of costs and risks. But there is seldom a clear line of division between those which belong to particular branches of the same trade. When several trades are combined in the hands of the same Universal Provider,[3] the costs and risks

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[1]<u>Ibid</u>., p. 280.

[2]<u>Ibid</u>., p. 280.

[3]Marshall uses the term Universal Provider to mean department store.

> of any one department cannot be stated separately, and only a vague guess can be made as to the part which it has played in making or marring the success of others.[1]

Despite these difficulties Marshall tried to generalize as to the effect of certain considerations on marketing costs. These efforts usually concern the effect of the type of demand for the product, the size of firm, and the degree of standardization of product. All are closely related but Marshall chooses to emphasize each in separate passages. Those products which are marketed seasonally are viewed as having high marketing costs because no routine is established. Technical difficulties re-occur and, if the item is perishable, added expenses of storage and waste are viewed as contributing to marketing costs. When a large and uniform demand exists, however, marketing costs tend to be low despite any seasonal influence. A large uniform demand allows for economies of production and under such conditions "we find relatively low expenses for holding and housing stocks, with little waste through depreciation, and without any great tax on fore-thought or contrivance."[2]

Marshall notes that standardization contributes to low cost marketing by limiting the number of marketing considerations with which a production firm must become

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[1]Marshall, Industry and Trade, p. 271.

[2]Ibid., p. 281.

involved. The small manufacturer is encouraged to confine his production to a particular class of goods, and to standardize within that class. When this is done such "standardization relieves him of many troubles of marketing which might weigh him down, and it enables him to give his energies to that work which is specially his."[1] The great advance in the use of machinery opened up "new ground for general markets."[2] Certain very specialized pieces of machinery are viewed as not being in general demand; because of this they "sell slowly; and have high traders costs on the turnover."[3]

Marshall's search for uniformity in the extent to which production firms engage in marketing met with little success. He states that "there is no uniformity of practice on the part of manufacturers and other producers as to the extent to which they themselves incur labor and expense on behalf of the marketing of their goods."[4] He recognizes that some production firms sell to wholesalers and some to retailers. When selling directly to retailers the manufacturer is said to incur costs in performing functions otherwise performed by the wholesaler, and a manufacturer following such a practice

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[1] _Ibid._, p. 245

[2] _Ibid._, p. 248.

[3] _Ibid._, p. 367.

[4] _Ibid._, p. 184.

would be expected to sell at a higher price in order to receive a return consistent with his efforts.

> Heavier costs for marketing are incurred by a manufacturer, if he sends round incessant streams of expensively equipped travellers to dealers of various sorts: and much heavier still, if he also advertises largely in order that the general public may demand goods bearing his name or trade-mark from the dealers.[1]

In the relationship between demand, supply, and value, Marshall faces the need for deciding the point up to which "we must aggregate the expenses."[2] The customs of the branches of industry are said to dictate the most appropriate points - usually the point of delivery to the wholesaler by the producer. In some cases this point will be that of delivery to the retailer, whereas, with still other products, it may even extend to the point of delivery to the ultimate consumer. This leads Marshall to consideration of ways of adjusting for different practices. His footnote elaborating on this means also reaffirms his earlier expression of the justification of marketing activity.

> A manufacturer sometimes sells in his own shops to the ultimate consumer goods such as are generally sold to a middleman; and then his point of delivery may be reduced back close to the customery (manufacturer's) point by deducting the expenses, direct and indirect, of his shops together with allowance for his own trouble and risk in regard to them, from the total expenses of his business; and at the same time deducting the <u>gross</u> profits of the middlemen, through

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[1] <u>Ibid</u>., p. 184.

[2] <u>Ibid</u>., p. 184.

> whose hands similar goods generally pass, from the price which he receives. The results thus reached will correspond to those suggested by an observation of the relations between wholesale demand, supply, and price. They may be faulty in particular instances: but if the profits of manufacturers who retail their own goods were habitually much greater than is indicated on this plan, the practice of the market would change: middlemen would be eliminated; and the point of delivery at which expenses and price would alike be reckoned, would be the ultimate consumer. All this, however, must be taken broadly; and subject to the reflection which will shortly be developed that the production of goods and the marketing of goods are not acts, but processes.[1]

Co-operatives

Co-operation is viewed by Marshall as a higher form of human action. He recognizes its appeal to those who feel a sense of social responsibility and refers occasionally to the future and the higher order of co-operation which is in store for mankind. The higher orders of co-operation which Marshall observes in practice are the co-operative societies for buying, selling, and manufacturing, and the moral zeal with which he regards these activities is apparent in many of his statements.

> But co-operation has a special charm for those in whose tempers the social element is stronger, and who desire not to separate themselves from their old comrades, but to work among them as their leaders. Its aspirations may in some respects be higher than its practice; but it undoubtedly does rest in a great measure on ethical motives. The true co-operator combines a keen business intellect with a spirit full of an earnest Faith; and some co-operative societies have been served excellently by men of great genius

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[1] *Ibid.*, pp. 184-85, n. 1.

> both mentally and morally - men who for the sake of the Co-operative Faith that is in them, have worked with great ability and energy, and with perfect uprightness, being all the time content with lower pay than they could have got as business managers on their own account or for a private firm. Men of this stamp are more common among the officers of co-operative societies than in other occupations; and though they are not very common even there, yet it may be hoped that the diffusion of a better knowledge of the true principles of co-operation, and the increase of general education are every day fitting a larger number of co-operators for the complex problems of business management.[1]

Marshall gives much of the credit for the achievement of massive retailing to the co-operative societies. Retailing activity is viewed as most inefficient and thus constitutes the logical place for co-operatives to be effective.

> ... Retail trade was the one accessible business in which there were great economies to be effected. Retailers, as a body, kept far more shops than was necessary, spent far too much trouble and money on attracting a few customers, and then in taking care that those few customers paid them in the long run - the very long run - for those goods which they had bought on credit, or, in other words, had borrowed; and for all this they had to charge. The smallest shopkeepers were those that spent most of their time in looking after their customers, and least in handing goods over the counter. It was those who were nearest the condition of the working men, who performed the most unnecessary services for them, and charged them the most for so doing. In some cases a retailer would sell at long credit what he himself bought at long credit from a wholesale dealer, who himself perhaps bought at credit from the ultimate producer. The manufacturer had to charge high for the risks and trouble, as well as the locking-up of the capital; the wholesale dealer, starting from this raised platform of high prices, piled up a good percentage

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[1]Alfred Marshall, Economics of Industry (Third edition; London: Macmillan and Co., Ltd., 1949), pp. 171-72.

> more for a similar cause; the intermediate dealer did the same, and perhaps, finding the retailer in his power, added a little adulteration extra; the retailer, having the workman in his power, added on, perhaps, a little more adulteration, and, anyhow, a great increase in price.[1]

Marshall recognizes that the tremendous influence of co-operative societies is not fully observable in the pure statistics of retailing because much of their historical importance is embodied in the practices taken up by private concerns. His primary emphasis in his discussion of co-operative societies is therefore on the function of retailing.

> ... The co-operative system has seldom been carried out in its entirety; and its partial application has so far attained its highest success in the task of retailing commodities consumed by working men - a task in which it has special advantages.[2]

The tremendous influence of co-operative trading is viewed as having been accomplished without massive production and without trained men of business, but came about almost completely by the efforts of British working men. Although Robert Owen is recognized as the founder of the co-operative movement, it was the Rochdale weavers who "realized that the most wasteful and ill managed business of the country was that of marketing goods to the working classes."[3] These men are viewed by Marshall as recognizing the relationship of the

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[1]Marshall, Memorials of Alfred Marshall, pp. 231-32.

[2]Marshall, Economics of Industry, p. 171.

[3]Marshall, Industry and Trade, p. 289.

problem to their own social ideals and seeking a remedy. Marshall states, "Their social faith could hold them together in business, and their business would give material strength to their faith."[1] He also reviews the method of operation of the Rochdale co-operative - the minimum charge for entry, the decision to set prices at the average retail level, and the provision for division of the surplus as a dividend. He regards their decision on establishing price levels as particularly clever:

> The plan seemed small and even petty from the standpoint of the rich trader: but its combination of idealism and common sense has led the way to large improvements in marketing, some of which have indeed been reached by other routes: but it appears as a whole to stand without a rival in the history of trade.[2]

Marshall credits the success of the co-operative to two main causes. The first is the price-quality advantage and the second is the "ethical incitement"[3] which leads the weak to help the weak. By these means "even more than by their good business, co-operators were able to attain at once, though on a very small scale, the chief advantages of the twentieth century Universal Provider."[4]

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[1] Ibid., p. 290.

[2] Ibid., p. 290.

[3] Ibid., p. 291.

[4] Ibid., p. 291.

In his written statements concerning such selling co-operatives, Marshall attributes their success to the rapid turnover of stock and the absence of bad debts. In time the main weakness of this form of co-operative became the competition of alert shopkeepers who copied the co-operative's methods of selling at good prices for cash. Having lost their advantage the societies had to learn to purchase effectively. This led to the extension of co-operative retailing methods to wholesale purchases and the establishment of wholesale co-operative societies which in turn led to the foundation of many branches of co-operative production. Both the wholesale and production co-operatives came primarily under the ownership of the retailing co-operative.

Marshall examines whether the co-operatives have measured up to expectation and notes that co-operative prices (after dividend deduction) are not conspicuously cheaper than those of retailers operating with comparable methods. This has caused some to feel that the co-operatives have not fully succeeded. Marshall lists three main causes which prevented more from being achieved: (1) Returns, even for those individuals who made great fortunes, have been moderate in relation to total capital. (2) Committee decision making is regarded as weak.

> Many decisions in the course of business require prompt action, based in large part on intuition associated with reason: the time and strain, involved in

> proving to other members of a committee that the best course is not that which appears best at first sight, are very great; and only a man who possesses the rare combination of fine and sensitive insight with a strong and even rugged character, is likely to persist and succeed in his efforts to bring a committee composed of ordinary men round to his point of view.[1]

(3) With growing size, the problem of the co-operative became more and more those of ordinary private business. These problems are handled by good people, but they have not had any business training for the job. In the meantime the very techniques that the co-operatives innovated are being used by aggressive competitors.

In an attempt to assess the contribution of British co-operative trading, Marshall refers to a statement by Paul T. Cherington[2] which is an apparent prediction that the British plan of co-operative trading (which shuns advertising) would influence important developments of retail trade in America. Marshall sums up his assessment of the British plan by stating that "cooperation has not done the impossible: but it has rendered, and is rendering, noble service to the British people."[3]

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[1] Ibid., p. 294.

[2] An early marketing pioneer. Marshall is referring to his work, Advertising as a Business Force.

[3] Marshall, Industry and Trade, p. 295.

Department and Chain Stores

Marshall notes that as the co-operative stores grew they opened up their membership to almost all applicants and the co-operative spirit disappeared. The stores became, in effect, department stores operated as joint stock companies. It is France, however, which is recognized by Marshall as the home of the first department stores. Despite this he expresses a belief that "their methods and their potentialities are congruous with American character and conditions, both economic and geographical."[1] This leads Marshall to conclude that the greatest developments of department stores have been made in America. He cites the advantages of lower rent, the store's ability to shift people around to meet unusual demands of a particular department, and its ability to get favorable buying terms due to its strength and turnover. The opinion of Mr. J. Wanamaker, the great American merchandising innovator, is cited in regard to a department store refraining from manufacturing. A footnote elaborates on some of Wanamaker's policies:

> Some of them claim to act up to the rule that no small gain should be sought through action, that tends to cause complaint; and that every doubtful question between a customer and a department, shall be decided in favour of the customer: no one is to be persuaded into an unwilling purchase. And a new principle is being adopted by some stores with the highest ambitions, that as a rule no new department shall be

[1] Ibid., p. 296.

> opened, till provision can be made for as high-class control and stock as those of "the average exclusive stores" of a similar scope.[1]

Marshall notes that some retail stores co-operate with one another in their control of the wholesaler. The natural development of this policy is recognized as the chain store which offers "the attractions of a prompt supply of fresh goods delivered from great central reservoirs, with the smallest possible handling by middlemen."[2] The extent of the growth of chains in America is noted by Marshall:

> It appears that in 1914 there were in Philadelphia 1260 grocery stores belonging to nine chain-companies. It may be added that in America and elsewhere some independent retailers have grouped themselves into chain-stores for the purpose of buying large quantities wholesale on favourable terms; thus moving very much on the lines of the numerous cooperative societies which peasants and small farmers have formed in Central Europe and elsewhere for buying feeding stuffs, manures, and farm stores generally.[3]

The success of large retail chains and the economies which promote their size lead Marshall to devote considerable attention to the overall effects of size in marketing activities.

Effect of Size on Marketing Activities

Specialization of markets, Marshall notes, continues to bring about changes in the habits of buying and selling.

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[1]Marshall, Industry and Trade, p. 297, n. 1.

[2]Ibid., p. 299.

[3]Ibid., p. 299, n. 1.

Past practices of the individual change,

> ... as the growth of markets around him gave him a double confidence that he could advantageously dispose of his grain to one set of people, and obtain his ropes and shoes from another.[1]

Specialization brings with it economies of scale but the increasing returns are not confined to the manufacturing phases of the business. The advantages of scale multiply and furnish some distinct marketing advantages:

> ... Success help to retain old customers and to bring new ones; the increase of his trade gives him great advantages in buying; his goods advertise one another, and thus diminish his difficulty in finding a vent for them. The increase in the scale of his business increases rapidly the advantages which he has over his competitors, and lowers the price at which he can afford to sell.[2]

Marshall notes that the reduction of activities to routine has been accomplished by the drive toward increasing returns. He writes of the plain weaving industry and observes that the "vast scale has enabled organization in production and marketing to be carried so far as to be almost dominated by routine."[3]

The advantages of the large firm relative to retailing receive special attention by Marshall when he expresses concern for the small shopkeeper being driven out of business by large firms. Among those industries

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[1] Ibid., p. 165, n. 1.

[2] Marshall, Principles of Economics, p. 315.

[3] Ibid., p. 320, n. 1.

which the large firms are changing "in particular the retail trade is being transformed, and the small shopkeeper is losing ground daily."[1] The pressure on the small retailer is viewed as growing out of the advantage of size to the larger firm in being able to have many retail outlets.

> A large manufacturer has however considerable advantage in retailing. He can open many shops in the same city, in each of which a customer's taste and fit can be ascertained; and if he selects a style in which exactly the right fit is not on hand, it can be ordered by telephone and sent to him from a common store in the course of an hour. Thus he procures custom more easily, and at less cost for marketing, than if he kept a full supply of everything likely to be needed in each of two or three giant shops. It is however true that this full standardization enables any retailer, with a considerable stock and near to a large wholesale stock, to market efficiently and cheaply on similar lines.[2]

Marshall notes many other factors which contribute to the ability of a large retail firm's ability to drive out small ones.

> Let us look at the advantages which a large retail shop or store has in competing with its smaller neighbours. To begin with, it can obviously buy on better terms, it can get its goods carried more cheaply, and can offer a larger variety to meet the taste of customers. Next, it has a great economy of skill: the small shopkeeper, like the small manufacturer, must spend much of his time in routine work that requires no judgment: whereas the head of a large establishment, and even in some cases his chief assistants, spend their whole time in using their judgment. Until lately these advantages have been generally outweighed by the greater facilities which the small shopkeeper has for bringing his goods to

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[1] Marshall, Economics of Industry, p. 161.

[2] Marshall, Industry and Trade, p. 234.

> the door of his customers; for humouring their several tastes; and for knowing enough of them individually to be able safely to lend them capital, in the form of selling them goods on credit.[1]

Marshall observes the growing distance in personal relations between the retailer and the customer. This lessening of the personal character of retailing is accounted for to some extent by the changing habits of the wealthier classes. Formerly these classes required "subservient personal attentions"[2] but an increase in "true self-respect" is reducing the need for small retailers. The pressure of time on busy people decreases the personal nature of small retailers and opens further advantages to size.

> ... The growing value of time makes people less willing than they were to spend several hours in shopping; they now often prefer to spend a few minutes in writing out a long list of orders from a varied and detailed price-list; and this they are enabled to do easily by the growing facilities for ordering and receiving parcels by post and in other ways. And when they do go shopping, tramcars and local trains are often at hand to take them easily and cheaply to the large central shops of a neighbouring town. All these changes render it more difficult than it was for the small shopkeeper to hold his own even in the provision trade, and others in which no great variety of stock is required.[3]

One of the small retailers greatest advantages, selling on credit, is frowned upon by Marshall. He expresses the belief that this advantage is lessening with

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[1]Marshall, Principles of Economics, pp. 287-88.

[2]Ibid., p. 288.

[3]Ibid., p. 288.

the growing distance between retailer and consumer. Marshall views credit as growing out of the personal relationship between buyer and seller, and, as buying and selling arrangements become more impersonal, he anticipates that credit will fade from the scene. His dislike for credit stems from his moral concern for those activities and practices which mold character. Credit is viewed as placing goods in people's hands without the character-producing sacrifice of having worked for those benefits. He expresses a belief that a money economy and modern business practices do

> ... indeed hinder the accumulation of wealth by putting new temptations in the way of those who are inclined to live extravagantly. In old times if a man wanted a good house to live in he must build it himself; now he finds plenty of good houses to be hired at a rent. Formerly, if he wanted good beer he must have a good brewhouse, now he can buy it more cheaply and better than he could brew it. Now he can borrow books from a library instead of buying them; and he can even furnish his house before he is ready to pay for his furniture. Thus in many ways the modern systems of buying and selling, and lending and borrowing, together with the growth of new wants, lead to new extravagances, and to a subordination of the interests of the future to those of the present.[1]

Marshall views fashion changes as another advantage which the larger dealer has. He notes the rise in the variety of new commodities and the influence of this factor upon the small retailer.

> ... For he cannot keep a sufficient stock to offer much variety of choice, and if he tries to follow any movement of fashion closely, a larger proportion

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[1] *Ibid.*, p. 227.

> of his stock will be left stranded by the receding tide than in the case of a large shopkeeper.[1]

Even the low cost of machine made goods is viewed by Marshall as influencing customers in some lines of clothing and furniture toward the purchase of "ready-made things from a large store instead of having them made to order by some small maker and dealer in their neighbourhood."[2]

Marshall expresses his dislike for rapid fashion changes in pointing out that they "now extend their baneful influence through almost every rank of society."[3] His recognition of the craving of man for distinction causes him to comment on the part played by fashion in this quest. Throughout his discussions of this topic he maintains the attitude that fashion is somewhat of a false gimmick by which people who lack true distinction seek to obtain recognition.

> ... In the upper grades, though the dress of women is still various and costly, that of men is simple and inexpensive as compared with what it was in Europe not long ago, and is to-day in the East. For those men who are most truly distinguished on their own account, have a natural dislike to seem to claim attention by their dress; and they have set the fashion.[4]

A footnote referring to the above passage calls more specific attention to the place of fashion as an

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[1] *Ibid.*, p. 288.

[2] *Ibid.*, pp. 288-89.

[3] Ibid., p. 288.

[4] *Ibid.*, pp. 87-88.

art rather than as a means of getting attention for an individual.

> A woman may display wealth, but she may not display only her wealth, by her dress; or else she defeats her ends. She must also suggest some distinction of character as well as of wealth; for though her dress may owe more to her dressmaker than to herself, yet there is a traditional assumption that, being less busy than man with external affairs, she can give more time to taking thought as to her dress. Even under the sway of modern fashions, to be "well dressed" - not "expensively dressed" - is a reasonable minor aim for those who desire to be distinguished for their faculties and abilities; and this will be still more the case if the evil dominion of the wanton vagaries of fashion should pass away. For to arrange costumes beautiful in themselves, various and well-adapted to their purposes, is an object worthy of high endeavour; it belongs to the same class, though not to the same rank in that class, as the painting of a good picture.[1]

The ability of the large firm to decentralize in competing with a small firm is viewed by Marshall as contributing to the competitive ability of the large firm. Such branch outlets possess the advantages relevant to available capital, avoid the expense of keeping large stocks, and can achieve whatever advantage can be gained from the close personal contact with customers.

> The branch manager has nothing to divert his attention from his customers; and, if an active man, with direct interest in the success of his branch, may prove himself a formidable rival to the small shopkeeper; as has been shown in many trades connected with clothing and food.[2]

Marshall concludes that the small shopkeeper will probably retain his business in the minor repairing trades

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[1] Ibid., p. 88, n. 1.

[2] Ibid., p. 289.

and in the sale of perishable goods to working classes. The latter business is retained by the small retailer principally on the strength of his selling on credit.

Marshall's concern for the effect on character of any activity causes him to consider whether the diminution of the small retailer does not constitute a lessening of the number of people who will be exercising initiative. In his treatment of this view Marshall reveals his own lack of respect for the retailing occupation.

> Some weight may be conceded to this appeal, in spite of the facts that the occupation of the retailer gives little scope for the highest constructive effort, and does not create cumulative progress in the same way as does the best work of the manufacturer; and that therefore combinations, which sustained the retailer's profit above what would be adequate if his time were well occupied, cause social waste.[1]

Location of Retail Outlets

Marshall's main concern regarding the placement of business is with the localization of production. However, he recognizes that customers will travel a longer distance for some products than for others, and that this fact influences the placement of these outlets. In this context, however, he remains primarily concerned with "shops" which may or may not have a production function in addition to offering goods at retail.

> But there is also the convenience of the customer to be considered. He will go to the nearest shop for

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[1]Marshall, Industry and Trade, p. 300.

a trifling purchase; but for an important purchase he will take the trouble of visiting any part of the town where he knows that there are specially good shops for his purpose. Consequently shops which deal in expensive and choice objects tend to congregate together; and those which supply ordinary domestic needs do not.[1]

In another context he concerns himself entirely with the marketing activities in the placement of outlets;

It is well known that retailers who are able to meet almost any sudden demand for things, which must on occasion be supplied from afar at great expense, and with much loss on the way, are to be found only in fashionable districts. They must devote care and expense to a certain dignity of appearance: there is seldom any effective competition to compel them to sell even common things cheaply; and their prices all round are very high.[2]

The growing efficiency of the large retailing unit is viewed as enabling retailers to have a large traffic in specialized goods.

It has been generally assumed until recently that no retailer is likely, even in a good thoroughfare, to attract as much custom as would enable him to turn over rapidly a stock containing a great variety of similar goods for the choice of the fastidious. But modern abundance of capital, modern developments of the arts of advertising, and modern facilities for attracting customers from a territory containing several hundred thousand well-to-do inhabitants, have changed the situation.[3]

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[1] Marshall, Principles of Economics, p. 273.

[2] Marshall, Industry and Trade, pp. 805-06.

[3] Ibid., pp. 807-08.

Trade Practices

Marshall notes that an increasing gap exists between producer and consumer, and, that unfair practices are not detected and punished as promptly as is done in a community where people live out their entire lives. The growing distance between producer and ultimate consumer presents the opportunity for many unfair practices.

> The opportunities for knavery are certainly more numerous than they were; but there is no reason for thinking that people avail themselves of a larger proportion of such opportunities than they used to do. On the contrary, modern methods of trade imply habits of trustfulness on the one side and a power of resisting temptation to dishonesty on the other, which do not exist among a backward people. Instances of simple truth and personal fidelity are met with under all social conditions: but those who have tried to establish a business of modern type in a backward country find that they can scarcely ever depend on the native population for filling posts of trust. It is even more difficult to dispense with imported assistance for work, which calls for a strong moral character, than for that which requires great skill and mental ability. Adulteration and fraud in trade were rampant in the middle ages to an extent that is very astonishing, when we consider the difficulties of wrong-doing without detection at that time.[2]

The optimistic confidence of Marshall in modern trade practice is shattered occasionally by recognition of some unfair practice. Combinations of traders are viewed as sometimes securing:

> ... Prices unreasonably in excess of the producer's prices. Such combinations are, as a rule, distinctly

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[1]Marshall, <u>Principles of Economics</u>, p. 7.

> antisocial: but they have existed at all times: and they have often been most mischievous when they have been based on mere implicit understandings, without any explicit and formal agreement.
>
> Thus the relations of traders' policies to public interests are not wholly above question.[1]

Such concern with the ill intent of some traders is rare, for Marshall had a tremendous faith in the evolutionary development of the higher faculties of mankind. To Marshall commercial development and a more advanced society carried with it a higher sense of morality on commercial matters. This is shown by his statement concerning the conduct of joint stock companies.

> But in all these matters the great body of the shareholders of a joint-stock company are, save in a few exceptional instances, almost powerless; though a few of the larger shareholders often exert themselves to find out what is going on; and are thus able to exercise an effective and wise control over the general management of the business. It is a strong proof of the marvellous growth in recent times of a spirit of honesty and uprightness in commercial matters, that the leading officers of great public companies yield as little as they do to the vast temptations to fraud which lie in their way. If they showed an eagerness to avail themselves of opportunities for wrong-doing at all approaching that of which we read in the commercial history of earlier civilization, their wrong uses of the trusts imposed in them would have been on so great a scale as to prevent the development of this democratic form of business.[2]

Marshall's satisfaction with the state of morality he observed on commercial matters prompts him to further confidence for the future. He held hopes for more realistic statistics which were not available to him because

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[1]Marshall, Industry and Trade, p. 280.

[2]Marshall, Principles of Economics, p. 303.

of "great technical difficulties, increased by the present jealousy of the ordinary business man against the publication of any of his affairs."[1]

Despite his awareness of the jealousy between rival firms, Marshall expresses optimism extending to a hope of a very open publication of information by firms.

> There is every reason to hope that the progress of trade morality will continue, aided in the future as it has been in the past, by a diminution of trade secrecy and by increased publicity in every form; and thus collective and democratic forms of business management may be able to extend themselves safely in many directions in which they have hitherto failed, and may far exceed the great services they already render in opening a large career to those who have no advantages of birth.[2]

The variety of topics included in this chapter is evidence of the all-inclusive character of Marshall's treatment of activities in the marketplace. Since he did not specifically consider the subject which we now recognize as marketing, treatment of these topics is widely dispersed throughout his writings. The present chapter has constituted an attempt to incorporate Marshall's awareness, generalizations and predictions relative to the marketing institutions with his views on other related topics. The following chapter deals solely with his views on the marketing functions.

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[1]A letter by Marshall to The Times (London), April 22, 1901, Memorials of Alfred Marshall, p. 324.

[2]Marshall, Principles of Economics, pp. 303-04.

VI. MARKETING FUNCTIONS

Marshall's recognition of certain functions, which current marketing thinkers classify as marketing functions, reveals a keen insight into the activities of middlemen. As with his treatment of other marketing topics these are generally discussed in the light of their general influence upon the entire economy. In this work, however, Marshall's writings show the extent to which he sought out the practical workings of the marketplace. This chapter deals with his awareness of marketing functions and some of the trends which Marshall observes.

Advertising

Marshall notes that traders, over a period of time, build up a following for their products. Such continuing relationships between traders and their customers encourage a feeling of trust and greatly simplify sales to these persons. In this situation the seller will not expect more for his product than elsewhere but he can expect to sell more easily because of the feeling of trust which pervades, and as a result, selling costs are lowered for these transactions. In addition such a

relationship precludes the necessity of the seller having to lower the price in order to attract people to his product.

The marketing reputation of a firm is viewed by Marshall as possibly constituting a larger value than the fixed plant of a manufacturer. He expresses a belief that a valuable reputation for fairness and generosity can only be achieved for a firm by the extension of special effort in this direction. He recognizes that a reputation can be achieved easily by way of heavy advertising but doubts whether this is possible without square dealing by the firm. When successful, however, a reputation of this sort is embodied in the company name and trademark and is very helpful in selling the products handled by the firm.

The primary classification which Marshall makes with regard to advertising is the constructive vs. combative distinction. Forms of constructive advertising include:

> ... Good frontage on a leading thoroughfare; adequate space for the convenience of employees and for customers; lifts and moving staircases, etc., are all constructive, so long as they do not exceed the requirements of the business. That is to say, the assistance, which they afford to customers by enabling them to satisfy their wants without inordinate fatigue or loss of time, would be appropriate, even if the business were not in strong rivalry with others.[1]

In this category are informative advertisements concerning forthcoming contracts, vacancies, and customer

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[1]Marshall, Industry and Trade, pp. 304-05.

samples. Advertisements in trade newspapers which are concerned with "technical and scientific discussions, are generally terse, explanatory and constructive."[1] Those advertisements which inform people of a new product for which they have had a substantial hidden want are also regarded as constructive.

Combative advertising is viewed as a socially wasteful force of mere capital in the "incessant iteration of the name of a product, coupled perhaps with a claim that it is of excellent quality."[2]

Marshall displays distaste for this type of advertising and states that it could not be effective in establishing a product unless the product was a fairly good buy. He notes that response to such advertisements is not on the basis of reason but through habit. "People in general are, for good and for evil, inclined to prefer that which is familiar to that which is not."[3] At one point, when discussing the cost of insurance he mentions that the price must cover "its own expenses of working, among which are often to be reckoned very heavy items for advertising and for losses by fraud,"[4] and stresses the social waste of combative advertising. Advertising is

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[1] Ibid., p. 305.

[2] Ibid., p. 306.

[3] Ibid., p. 306.

[4] Marshall, Principles of Economics, p. 135, n. 1.

viewed as contributing to the expenses of the firm and "the lavish advertiser must deduct his expenses from the gross profits of his additional sales: while the rivals whom he ousts lose their gross profits, and thus there enters one element of social waste."[1]

The second element of social waste noted by Marshall is that such combative advertising blocks out the attention getting power of smaller advertisements of less wealthy men. His general attitude toward advertising is that constructive advertising is desirable and contributes to active trade and the fuller satisfaction of the consumer. The firm practicing this type of promotion will treat it as an investment and this expenditure "will, as it were, be driven up to a value which offers to it a resistance equal to its own expanding force."[2] Combative advertising is viewed as mainly a technique by which wealth can exert power over less wealthy advertisers.

Marshall shows both awareness and respect for developments in the United States regarding marketing in general and advertising in particular. He studies the development of psychological technique but remains somewhat skeptical of the desirability of its use in advertising. The skepticism can only be implied from the following paragraph which he uses to conclude a segment

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[1]Marshall, Industry and Trade, pp. 306-07.

[2]Marshall, Principles of Economics, p. 411.

entitled "Advertisements which are mainly combative generally involve social waste."

> In conclusion it should be noted that academic students and professional advertising agents in America have united in applying modern methods of systematic and progressive analysis, observation, experiment, record, and provisional conclusion, in successive cycles to ascertaining the most effective forms of appeal. Psychology has been pressed into the service: the influence which repetition of an advertisement exerts has been subsumed as a special instance of the educative effect of repetition.[1]

Marshall's footnotes include complimentary quotes from the writings of L. D. H. Weld[2] A. W. Shaw[3] and P. T. Cherington regarding marketing practices in America. On advertising Shaw and Cherington are singled out. The former is cited[4] for his examples of firms which spend considerable sums of money on advertising which is sufficiently effective to lower the selling cost per unit of product. Shaw's Approach to Business Problems is also identified for its coverage of the psychological effect of advertising. Marshall refers to it as "an excellent account of laboratory study on such matters."[5] Cherington's Advertising as a Business Force is cited for its coverage

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[1] Marshall, Industry and Trade, p. 307.

[2] An early marketing pioneer cited for his report at the December, American Economic Association. 1914.

[3] A marketing pioneer noted for his development of a functional approach to marketing.

[4] Marshall, Industry and Trade, pp. 304-05.

[5] Ibid., p. 307, n. 2.

of the effectiveness of psychological advertising and for its treatment of the strategy connected with bringing a new product onto the market.

Pricing

Marshall expresses the view that the retailer has, to a certain extent, his own little monopoly, and as long as he does not abuse it, he may set his prices somewhat arbitrarily within a range. The pricing by producers or middlemen who supply other firms must, however, be based on specific costs. A business purchaser is said to scrutinize the price much more carefully,

> ... and, if that charge is above its true cost, he will find some one prepared to supply it at its true cost: if he fails to do this, he is likely to fail in business altogether; since a small percentage on the things which he buys may affect his net profits by a large percentage.[1]

Marshall says that the consumer does not have good judgment and that it does not pay him to seek the lowest price for each class of goods. The retailer is viewed as being fully aware of this and thus charges, not on the basis of cost, but according to what the traffic will bear.

Price movements, Marshall says, usually are not dictated by consumers. This provides the retailer with

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[1]Marshall, Memorials of Alfred Marshall, p. 353.

flexibility to use the price of any one item as a non-paying price leader in order to attract customers. The long lag between a fall in wholesale prices and a fall in retail prices enables the individual retailer to play up, by advertising, a very low price compelling other retailers to follow with some being forced out of business. Most retailers are viewed as particularly reluctant to lower prices in that they can continue to sell to contented customers - no urgency dictates that they act and the wholesale price may return to the old level. Even progressive retailers are viewed as resisting price changes. The printing of catalogues for mail order selling contributes to this reluctance and when finally pressed to a change, the retailer is more apt to substitute a higher quality while maintaining the old price.

Marshall states that the working expenses of the retailer do not change much with changing wholesale prices. As a result it is said that one cannot expect retail prices to fall in the same ratio as the fall in wholesale prices. He detects a long term trend toward lower working expenses for retailers but does not feel that it is sufficiently rapid to keep pace with rapidly lowering wholesale prices.

Retail prices move upward much faster in response to rising wholesale prices. Where collusion exists,

common action upward is more likely than when the movement is downward. Marshall states that:

> ... Trade etiquette is apt to condemn as aggressive the action of a retailer who refuses to go with the others, on the ground that he has laid in a large stock before the rise in price. And even where there is no such understanding, the retailer stands to gain something in hand by promptly following a rise, just as he does by delaying to follow a fall.[1]

The customer may react to a higher price by being "jolted out of his habit."[2] To avoid this the retailer retains the old price and substitutes inferior goods to make up the difference. Furthermore, Marshall points out that the working expenses of the retailer do not change much with a rise in prices. This point is included to show that even if retail prices were not sticky, they could not be expected to move in the same proportion as wholesale prices. Marshall concludes:

> ... A rise in price increases and a fall in price diminishes the inclination of retailers to offer inferior goods to their customers, rather than to tempt them with better goods than they have bought before.[3]

As evidence of the above, Marshall cites the case of the shift from woolens to cottons during the rising price period prior to 1873 and points out that similar adulteration occurred in all classes of goods. Marshall detects a movement away from the earlier

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[1] _Ibid._, p. 355.

[2] _Ibid._, p. 355.

[3] _Ibid._, p. 356.

adulteration in the period after 1873. Despite numerous exceptions he maintains that a tendency exists for rising prices to lower the quality of goods offered for sale and falling prices to raise that quality. This fact causes those goods which are sold by measure to be reduced in quantity when wholesalers prices rise. Retail prices remain the same but the buyer gets less for the same money. When a good is sold by name this cannot be done, and such goods have very sensitive retail prices.

Marshall cautions his readers concerning the effect of fashion on price. The wholesale price of dresses could be rising but these are not necessarily the same style dresses as those currently being sold. The present stock might be in the process of being sacrificed at lower prices to make room for the new fashions. During such a period it may be difficult to draw any firm conclusions as to the relationship of the level of retail prices to wholesale prices.

Standardized Products - Grading and Branding

In describing wide markets, Marshall points out that universal demand and ease of description are important prerequisites. His discussion of the grading of specific products concerns agricultural products and minerals with such products as cotton, wheat and iron being singled out as lending themselves to grading.

> They can be easily described, so that they can be bought and sold by persons at a distance from one another and at a distance also from the commodities. If necessary, samples can be taken of them which are truly representative: and they can even be "graded," as is the actual practice with regard to grain in America, by an independent authority; so that the purchaser may be secure that what he buys will come up to a given standard, though he has never seen a sample of the goods which he is buying and perhaps would not be able himself to form an opinion on it if he did.[1]

Marshall warns of speculative combinations brought on by grading - particularly in the produce markets and the stock exchanges. He expresses the belief that this will present a very grave problem for the coming generation.

Marshall does not discuss the grading of purely consumer products. Such grading as occurs is, to Marshall, manifested in brand names or trade marks. Branded goods are those which have experienced some manufacture or processing and are regarded by Marshall as highly standardized products. He maintains a fear that combinations of producers are involved and writes of products that,

> ... are so far standardized, that their character is certified by a trade-mark, or other brand. For it has behind it forces which have taken many branches of manufacture out of the hands of small local producers, and given them over to giant businesses, or to strong centres of localized industry.[2]

Branding in American markets is recognized by Marshall as being more pronounced, and, as a result, more conducive to combination.

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[1]Marshall, <u>Principles of Economics</u>, p. 326.

[2]Marshall, <u>Industry and Trade</u>, p. 300.

> And American experience, which pioneers in many matters of this kind, suggests that brands and other trade-marks on things for domestic consumption will ere long become an important factor in the spread of large capitalistic control over industry and life.[1]

Marshall points out that the influence of branding need not extend to the ultimate consumer. In doing so he cites examples of intermediary purchases (by brand) made by manufacturers to insure quality even though the end user is unaware of the brands encompassed in the finished product.

Marshall credits the co-operative movement with having increased the importance of branding in its attempt to "attract customers, who might be suspicious of the competency of amateur dealers to make good selections of things which could not be well judged without expert knowledge."[2] As a result the pricing of branded items came to be used as price leaders in seeking other sales.

> Manufacturers, especially in trades connected with furniture and dress, and retailers in almost all trades, frequently find it best to use certain of their goods as a means of advertising others, and to charge the first with less and the second with more than their proportionate share of Supplementary expenses. In the former class they put those goods which are so uniform in character and so largely consumed that nearly all purchasers know their value well, in the second those with regard to which purchasers think more of consulting their fancy than of buying at the lowest possible price.[3]

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[1] Ibid., p. 300.

[2] Ibid., p. 301.

[3] Marshall, Economics of Industry, p. 227.

Marshall observes the strategy with which new products are brought onto the market. He notes that brand acceptance is accelerated by corporations run by wealthy individuals who invest large sums of money in plant, advertising, and in other planned promotions. A part of the promotion, Marshall observes, is the temporary offering of a high rate of profit to wholesalers and retailers. After the product is accepted these middlemen are then forced to handle the product at a low rate of profit. For those products not yet fully established, Marshall notes that dealers can play a large part in influencing their success or failure. America is again cited as an area where the protection of branded goods has been highly refined.

> On one side, measures are taken to prevent the goods from being sold in poor condition, and thus bringing the brand into disfavour among consumers; and, on the other, "price maintenance" is enforced on wholesalers and on retailers alike, in order to keep the brand in the favour of traders. Similar policies have been pursued, though perhaps with somewhat less vehemence, in other countries.[1]

The standardization of products and branding prompt Marshall to contemplate the future manner of sale of some products. An extension of preselling via advertising leads him to consider vending machines as a means of sale.

> Another generation may possibly see large extensions of methods, still more or less in an

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[1] Marshall, <u>Industry and Trade</u>, p. 302.

> experimental stage, by which slot machines may be made to sell not only standardized goods, but fruit and even the hot dishes of a restaurant, each separate consignment being visible through a glass door when an appropriate coin is put in the slot.[1]

Storage and Stock Turnover

The storage of products is recognized by Marshall as smoothing out the supply of goods to the consumer when production must, through season or economy, occur in spurts.

> Nearly all western markets are now united by so many various connections, that a need for any common product almost anywhere can be filled in a couple of days, if not in a few hours, from a large reservoir; which can be replenished quickly from still larger reservoirs near or far. In return for these services, which central reservoirs render to local consumption, linked-up local demand provides a fairly steady market in time of peace for nearly all commodities, however highly specialized, the consumption of which is not greatly varied by such widespread influences as changes in the season or in fashion.[2]

Marshall points out that products having one harvest a year must, on the average, have half a year's consumption in the hands of farmers, traders or consumers. He notes that the cheapest form of storing grain was generally the land, but that large elevators have come into existence with the result that traders have generally taken over the function of storing grain.

A gradual trend in the direction of the manufacturer carrying his own stocks is observed by Marshall,

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[1] *Ibid.*, p. 301.

[2] *Ibid.*, p. 251.

but he is quick to point out that the practice varies from one industry to another. Engineering firms are singled out as maintaining most of their own stocks, but, Marshall notes, that many other products are stored by traders. "It is therefore still true that traders benefit productive industries and the country generally by taking a considerable part in the carrying of stocks."[1] This appears perfectly logical to Marshall because the trader is said to be able to turn over his stock more frequently than formerly.

> Their turnover increases relatively to the capital needed for it: while, on the other hand, the manufacturer's plant increases in costliness relatively to his net output - that is, to the excess value of his product over that of his material.[2]

The variety of goods being offered for sale is viewed by Marshall as an influence toward carrying greater stocks. However, the possibilities of depreciation "by new inventions and by changes in technique,"[3] as well as changes in fashion and custom, are influences toward the reduction of stocks. Speedy new means of production and advanced communication and transportation are also given credit for reducing the volume of storage necessary.

A balancing of the above considerations leads Marshall to conclude that storage costs occupy a decreasing share of the final price.

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[1] Ibid., p. 277.

[2] Ibid., p. 277.

[3] Ibid., p. 277.

> For these reasons the stocks held by producers and traders in the western world are an ever diminishing percentage of their turnovers: and thus, although the variety of production and the imperiousness of demand are multiplying rapidly the number of products for which each industry and trade is responsible, there is a general (not universal) fall in that percentage of the retail prices of commodities, which is attributable to the costs of keeping stocks of them.[1]

Marshall reveals an insight into the problems of the businessman concerning stocks and their turnover. His primary concern in this respect is the influence of the rate of turnover upon the rate of profit.

> ... The retail dealer's profit on the turnover is often only five or ten per cent, for commodities which are in general demand, and which are not subject to changes of fashion; so that while the sales are large, the necessary stocks are small, and the capital invested in them can be turned over very rapidly, with very little trouble and no risk. But a profit on the turnover of nearly a hundred per cent. is required to remunerate the retailer of some kinds of fancy goods which can be sold but slowly, of which varied stocks must be kept, which require a large place for their display, and which a change of fashion may render unsaleable except at a loss; and even this high rate is often exceeded in the case of fish, fruit, flowers and vegetables.[2]

Financing

The references by Marshall to stock turnover and the minimization of stock by the retailer are presented with direct implications relative to finance and the investment of money into inventories. He expresses a belief

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[1] *Ibid.*, p. 278.

[2] Marshall, *Principles of Economics*, p. 616.

that the size of inventory does not increase at the same proportion as the markets for the product.

> ... Good marketing may be compared to a fly-wheel, rather than to a reservoir. The engine which drives a single machine, liable to short sudden increase of strain, must have a fairly massive fly-wheel. If it drives a score of such machines it needs a mass perhaps only six times as great; and if it drives five hundred of them, the wheel may be perhaps less than a thirtieth part as massive in proportion to the work done, as if it drove only one.[1]

Marshall's discussion of the relationship of the rate of profit to stock and its turnover bears specifically upon this matter. When writing about interest rates he notes the affect of changing interest rates on the "finished commodity in the hands of retail dealers."[2] In addition to recognizing clearly the need for dollar investment in marketing as well as production activities, Marshall exhibits concern for identifying what type of businessmen had title as the goods move from producer to consumer. Formerly the manufacturers coming into business

> ... were dependent for finances on capital which had been accumulated by merchants and others, and was made accessible by banks that then grew up. During that phase the manufacturer kept as little stock as possible; his goods were housed and "carried" financially by merchants and middlemen till they reached the consumer.[3]

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[1] Marshall, <u>Industry and Trade</u>, p. 251.

[2] Marshall, <u>Principles of Economics</u>, p. 520.

[3] Marshall, <u>Industry and Trade</u>, p. 276.

Marshall notes a tendency, however, for the accumulation of capital by firms to be a factor in causing the manufacturer to retain title as far as the retailer or consumer. This tendency is noted as part of the overall capital advantage of the larger firm. Marshall's emphasis on capital for production is on the recognition that a point is reached "beyond which any further increase in size gives little further increase in economy and efficiency."[1] He looks approvingly upon this fact because he feels that the basic driving forces toward industrial progress are initiative and versatality, which come primarily from small firms. Marshall sees no such turning point on the use of capital for marketing.

> But this conclusion does not extend to the "marketing" side of business: for we shall find that, on that side, the advantages of large capitals in competition with capitals of smaller size are constantly increasing almost everywhere.[2]

The above statement is the basis of much of Marshall's concern for the extent of concentration growing out of vast number of dollars being diverted to the marketing side of the firm. In a paragraph directed to the promotion of joint stock companies he links stock promotion with some marketing implications:

> During the last few years, however, there has been a great increase of promotions, the leading feature of which has been the assertion that great

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[1] *Ibid.*, p. 249.

[2] *Ibid.*, p. 249.

economies are to be attained, in marketing as well as in production, by very large businesses; especially where they can practically monopolize a considerable market. This assertion contains much truth: but in many cases it is an overstatement prompted by a strong bias. In America and some other countries, vast gains have often accrued to promoters who have succeeded in inducing the public to accept a high estimate of the economies to be obtained by the fusion of competitive businesses. For instance, it may appear that when several businesses of which the aggregate capital value is say, twenty million dollars, have been amalgamated into one, its net earning power will be so much greater than the aggregate of theirs, that its capital value may fairly be estimated at, say, thirty millions. In this, which is not an extreme case, a few months' work will have put into the hands of the promoter, and those who work with him, a gross sum of ten million dollars: and, in spite of great incidental expenses in securing options, advertising, etc., more than half may be net gain. Such rich rewards have never been reached so quickly as those which have fallen to some dozen or score of promoters of the first rank in America.[1]

In the very next paragraph Marshall states that such gains "appeal to the common desire for wealth as a means of physical enjoyment." Throughout the context, Marshall is addressing himself to the subject of joint stock promotion but a strong suggestion of suspicion toward marketing is evident. Furthermore the gains are said to

> ... give unprecedented scope for the use of all those subtle devices for misleading the public which have been developed by successive generations of astute knaves.Meanwhile the contrivances of the law for the defense of the public against them plod with heavy steps some way in the rear; but on the whole gaining ground relatively to the wayward progress of the evil-doers.[2]

[1] _Ibid_., pp. 331-32.

[2] _Ibid_., p. 332.

Transportation

Marshall expresses the importance of improved transportation in reducing the levels of stock necessary. As examples of this he discusses the effect of cheap and quick transportation of agricultural products. Furthermore, Marshall emphasizes the effect of improved transportation upon the distance that products travel to market.

> Thus technical improvements in transport and marketing are ever overcoming old difficulties; but they are also ever stimulating further developments, which open out new difficulties. One of the most prominent of these, the increase in the distances over which food and other goods travel before arriving at their final resting place, has perhaps nearly reached its full force already.[1]

Marshall believes that as presumably backward countries become more industralized, they will develop products of their own and the need for distant transportation will be lessened. Those products which continue to be transported long distances are said to be specialties or raw-materials which only exist in particular areas. Despite this reasoning, however, Marshall points out, in another context, that even common products are being transported freely.

> One effect of this cheapening of transport has been that, while a century ago the goods which England gained by foreign trade were chiefly the luxuries of the well-to-do, they now consist largely of bulky commodities and especially wheat and other kinds of

[1] *Ibid.*, p. 251.

simple food. And thus although England's gains from her foreign trade may not have been increasing quite in proportion to the great increase in its volume, the additions which it has made to the real purchasing power of the wages of the working classes have been very great and constantly increasing.[1]

The extent to which Marshall recognizes the importance of improvements in transportation to England's progress is evident from the following statement:

Probably more than three-fourths of the whole benefit she has derived from the progress of manufacture during the present century has been through its indirect influences in lowering the cost of transport of men and goods, of water and light, of electricity and news; for the dominant economic fact of our own age is the development not of the Manufacturing, but of the Transport industries.[2]

Much stress is placed by Marshall on the effect of improved and cheaper transportation upon American agriculture in relation to that of England.

As the population of America spread westward from the Atlantic, richer and still richer wheat soils have come under cultivation; and the economies of transport have increased so much, especially in recent years, that the total cost of importing a quarter of wheat from the farms on the outskirts of cultivation has diminished rapidly, though the distance of that margin has been increasing. And thus England has been saved from the need of more and more intensive cultivation.[3]

In addition to all the benefits of improved transportation, Marshall recognizes the degree of concentration which has accompanied progress. The scale of

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[1] Marshall, Economics of Industry, p. 332.

[2] Ibid., p. 331.

[3] Marshall, Principles of Economics, p. 673.

transportation necessary for efficiency is noted as one of the causes. A small ship has no chance of competing with a large ship because a "ship's carrying power varies as the cube of her dimensions, while the resistance offered by the water increases only a little faster than the square of her dimensions."[1] Advantages of scale in transportation are not, however, limited to water shipments and, as a result, concentration occurs throughout the transportation industry.

> Country carriers and a few cabmen are almost the only survivals of small industry in the carrying trade. Railways and tramways are constantly increasing in size, and the capital required to work them is increasing at an even greater rate.[2]

Merchandising Strategy

Earlier sections of this paper have, in various contexts, indicated Marshall's awareness of much merchandising technique. Such phases as storage and turnover, pricing, policies of co-operatives, advertising effectiveness, effect of fashion, and cash and credit policies have all revealed the extent to which he was informed. This present section is intended to view some of the considerations of strategy used by traders and to inquire into Marshall's thoughts on dumping.

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[1] Ibid., p. 290, n. 1.

[2] Ibid., p. 289.

Marshall seems to have been a student of much that was new in American merchandising. His knowledge of Wanamaker's policies is apparent when he discusses some of the strategy of retailing a product successfully. The following quote of Marshall reveals the increased emphasis on a satisfied customer in marketing:

> ... There are many marketing problems in which the most advantageous course may be found to lie in making a loss on particular transactions. A great American trader gave instructions that, when a customer, who did not know her own mind, brought back a recent purchase somewhat the worse for its journey, it was to be taken back, and the full money returned, unless there was reason to suppose that she had not acted in good faith: he reckoned that where he thus lost half a dollar in money, he would gain a dollar's worth of good will. The success of his method points to the fundamental principle that the marketing side of the work of a business is an integral process, and not a series of independent transactions.[1]

There is much in Marshall's writing that suggests that individual traders act in anticipation of the reaction of other traders. In discussing the relative movement of retail prices he says that "trade etiquette is apt to condemn as aggressive the action of a retailer who refuses to go with the others, on the ground that he has laid in a large stock before the rise in price."[2]

The strategy of merchandising products often leads producers to sell to markets other than in the customary area at substantially different prices.

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[1]Marshall, Industry and Trade, p. 270.

[2]Marshall, Memorials of Alfred Marshall, p. 355.

> In fact, when trade is slack, a producer will often try to sell some of his surplus goods outside of his own particular market at prices that do little more than cover their prime costs: while within that market he still tries to sell at prices that nearly cover supplementary costs.[1]

The motivation for "dumping" is analyzed by Marshall as growing out of different attitudes on the part of producers and traders toward foreign competitors. He states that:

> ... The tendency has broad roots in the fact that almost every one is inclined to allay conflict in a market, which he regards as belonging to him in "particular"; while he is often inclined, and sometimes compelled to adopt a different policy, when pushing his way into a market on which he has no special hold.[2]

Marshall says that the members of industry are likely to band together to set prices and to agree not to aggressively pursue sales in the home market. Such understandings are said to provide that those producers who cannot resist greater levels of manufacture should sell their products in a foreign market. Such practices lead Marshall to consider the possibility of a tax on dumped goods, but he decides against such a tax on the grounds that it could not "be worked efficiently."[3]

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[1]Marshall, Principles of Economics, p. 458.

[2]Marshall, Industry and Trade, p. 629.

[3]Letter from Marshall to Sir William Ramsey, Memorials of Alfred Marshall, p. 487.

VII. AN ANALYSIS OF MARSHALL'S VIEWS ON MARKETING

An analysis of Marshall's views with an eye to the awareness and contribution such views may have relative to marketing theory is necessarily influenced by the reader's assessment of relative potential of certain concepts. Despite this fact, however, there probably is little question but that Marshall's greatest usefulness relative to marketing is embodied in his approach to subject matter rather than in the views he held on any one phase of the subject. Such a conclusion is itself consistent with Marshall's emphasis on methodology. In keeping with this, the present chapter is concentrated on the emphasis Marshall placed in various directions and concludes with a treatment of some of the major lessons to be learned from Marshall's approach to subject matter.

Marshall's Overall Scheme

Marshall's prominence in economics rests primarily on his synthesis of supply and demand. Demand is only part of his scheme and receives much less emphasis than in the writings of Jevons and the Austrian school, but Marshall does bring demand into value determination as

an equally necessary side of exchange. This in itself constitutes an emphasis on demand greater than virtually all of his predecessors in the classical school. Marshall looks to the statistics and activities of the practical world in his search for patterns or uniformities of actions and he writes with an eye to being judged by that practical world.

Marketing in Relation to Marshall's Theory of Income Distribution

Marshall's scheme of income distribution is distinctly non-marketing oriented. The two major types of costs he recognizes are prime and supplementary. Costs are identified as belonging to the former category if they are completely flexible and change with the state of the market for the product. Supplementary costs lack complete flexibility and thus, to some extent, are fixed costs. In both cases the determination as to type of cost is on the basis of what type of change occurs in the cost as the state of market changes. The assumption of market levels and changes in market levels to observe changes in types of costs is the pattern of reasoning. It is distinctly opposed to analysis which is frequently performed by marketing thinkers who view changes in activities for their effect on market levels.

The identification of costs in Marshall's scheme is important to his income distribution because, in the

short run, the net returns from prime costs are identified as profits whereas the net returns from supplementary costs are rents or quasi-rents. Such inflexibilities on the supply side caused by natural abilities of people, committed investments in assets, and the training of worker skills, all produce a return which is identified as quasi-rent. Marshall does not specifically categorize marketing efforts and activities but it is safe to assume that the return for most of these efforts would also be classified as a quasi-rent. From a logical standpoint it is difficult to imagine marketing expenditures directed to increasing demand as moving in response to the very market those expenditures are trying to influence. From a practical standpoint, however, it is quite apparent that this practice is followed illogically by far too many marketers. In Marshall's scheme the returns over cost of such activities must be recognized as resulting from fixed investments and consequently identified as a quasi-rent. Other marketing activity, which is not directed to influencing the market, may be viewed as being completely flexible relative to market levels. Such marketing functions as transportation and storage could be classified in this category and the return from them over costs identified as a profit.

Since the flexibility of costs represents the basis for distinguishing between profits and quasi-rents

in the short run, it becomes obvious that any restrictions upon supply, whether natural or artificial, constitute the basis for the existence of quasi-rents. Consequently the returns over costs to collusive oligopolists and monopolists who achieve returns which grow out of their control of supply must be classified as quasi-rents.

Quasi-rent is a short run concept with Marshall in that all supplementary costs become variable in the long run, and consequently the quasi-rents become the normal profits of the long run.

Marshall's Concern for Marketing

Marshall provides the business transaction with new dignity by his recognition of the fact that both parties to an exchange can benefit. This view, embodied in his concept of consumer surplus, is of vital importance to the foundation of any marketing theory.

Little question exists but that Marshall regards marketing as a productive activity which, if not performed in a sufficiently economical manner, would result in others (producers or traders) taking over the performance of these functions. He reasons that since this has not happened to any great extent, it may be assumed that the performance of the function is justified. This does not mean that Marshall regards all marketing as efficient. On the contrary, he is very critical of the inefficiency

of retailing and offers encouragement to the co-operatives to improve retailing practices. He expresses a belief that traders may at times take excessive profits and he feels that there may be too many traders. This latter view is a result of Marshall's observation that retailers can frequently avoid any substantial investment in stock because this risk is being assumed, to a greater extent, by the producer.

Awareness of American Marketing Pioneers

The names and findings of such pioneers of early marketing developments as L. D. H. Weld, P. T. Cherington, A. W. Shaw and J. Wanamaker appear in Marshall's writings. Weld is cited in regard to the grading and branding practices of some 800 Minnesota creameries. Cherington's Advertising as a Business Force is quoted by Marshall for its prediction of the coming changes in American advertising. He also cites Cherington's estimate of the share of retail trade held by regular retailers as distinct from those which are developing mail order business, and provides some Cherington data on the progress of chain grocery stores in America. His final reference to Cherington is in relation to the progress of psychological application to advertising. The references by Marshall to A. W. Shaw are to the latter's An Approach to Business Problems, and include an emphasis on the

successful use of scientific technique in advertising. Wanamaker, the American retailing innovator, is cited for his practice of assuring a satisfied customer.

Influence of His Morality

Marshall's Victorian sense of morality influences his thinking on several marketing topics. He evaluates work as a moral force and regards production as a greater character builder than the marketing activities. People who have mastered the skills of a trade are regarded as having experienced a greater character builder than those who live by their wits. Marshall tends to put marketing activities in the latter category.

Work, preferably of the production variety, is regarded as a worthwhile training ground and enjoyment of goods without the sacrifice of having worked for them is viewed as being damaging to one's character. For this reason the granting and use of credit is frowned upon by Marshall and the marketing firms which avoid it are held to be more efficient. Wastefulness is wrong in Marshall's morality and rapidly changing fashion is frowned upon for the waste it creates. It is also discouraged because it frequently constitutes an attempt of a person calling false attention to himself whereas true fashion, like respect, is earned and does not call for such artificial maneuverings.

Part of Marshall's morality seems to regard rationality as a higher form of human action and any appeal via repetition or habit is regarded as appealing to man's baser motives. Repetitious advertising is looked down upon as being base.

Dualism

In reading all of Marshall's works one is struck with the dualism which frequently appears in his writing. Several economic historians have commented upon this dualism and the form that it takes.

Dualism should not be construed to mean inconsistency or contradiction where Marshall is concerned His dualism frequently constitutes his emphasizing two or more significant developments or trends which are pressures in opposite directions. More often than not these pressures are taken up in separate contexts and no attempt is made to resolve which development will prevail. He merely notes the trend offered by the various forces. In his treatment of marketing matters this dualism appears on several subjects.

Dualism is evident in Marshall's continued emphasis on the biological analogy and the fear he expresses repeatedly in other contexts of the continued growth of large firms. The representative firm is said to go through a life cycle just as does a tree in a forest. On the other

hand, Marshall's fear of monopolistic concentration seems to belie the biological analogy by which firms naturally die off when they reach maturity. This is significant in marketing matters because much of Marshall's fear toward monopolies stems from his belief that there may not be a point of diminishing returns for funds invested in certain marketing activities. Whereas the law of diminishing returns contributes to the life cycle approach with regard to investment in production, Marshall does not feel that it is at work relevant to investments in marketing. Consequently, many of Marshall's fears relevant to monopolistic tendencies stem from his doubts concerning the limitation of the effectiveness of marketing. He expresses a belief that many dollars of advertising expended by a seller can be effective in dominating an industry.

This fear of successful use of fortunes devoted to advertising points up another dualistic phase of Marshall's writings. He frequently expresses a great faith in the evolutionary development of man to a higher, more rational plane. On the other hand, Marshall's fear that repetitive advertising will be successful, his statements on the influence of custom and habit on purchases, and his skepticism concerning the buying habits of the ultimate consumer highlight the other side of man's nature.

The dualism of Marshall is also apparent in his attitude toward co-operatives, competition, and the size of firms. With regard to production, Marshall expresses distaste for large sized firms whereas small firms are viewed as encouraging initiative. In the case of marketing (particularly retailing), however, Marshall states, in effect, that the inefficiency is so great that it causes injustices to the working man by forcing him to pay unnecessarily high prices for commodities. Marshall sides with the efforts of such workers to form co-operatives in order to lower the retail prices. In so doing he notes the effect of developments in retailing practices. The same practices which tend to lower prices when performed by co-operatives are also effective when carried on by large department stores or chain stores. In the process of this development, however, larger firms are necessary to retail merchandise effectively. The reader of Marshall is left with the implication that size in retailing is more forgivable than size in a production company. This attitude of Marshall's grows out of the efficiencies of marketing brought on by the large firms and by a stated skepticism of the view that small retail firms do contribute to initiative.

The Study of Consumption and Demand

The study of consumption without the use of monetary measurement is viewed by Marshall as a part of the general study of social sciences and incapable of very scientific results. The study of people and their actions on economic matters is, however, of vital interest to Marshall. He observes how people purchase conventional necessaries with custom dictating the limits on ownership of certain products. Style and fashion come in for similar interest, but these matters, while of great interest, are viewed as incapable of scientific treatment. Consumption patterns are viewed as growing out of the efforts and activities of people. The study of consumption is thus shunned as the scientific basis for economics. He takes an interest in the classifications of wants and desires but concludes that such classifications are not important to his purposes.

The measure of satisfaction which Marshall adopts, with reservations, is the price which a consumer is willing and able to pay for a product. This constitutes a key decision in Marshall's entire scheme. The measurement of demand, however, presents difficulties - the same difficulties which marketing research people face in gathering information on market demand. Marshall did not place much trust in opinion questionnaires as means of gathering information because of his belief that

people will answer according to how they feel they ought to reply. This is undoubtedly a factor in his limitation of demand to the area around the customary price.

Aggregate Demand

On the issue of aggregate demand Marshall is very specific in pointing out that potential purchasing power does not automatically become actual. Confidence is regarded as the key to the strength of the economy and, as a result, the areas of production and credit loom as important to Marshall. In his discussion of the confidence needed for the strength of the economy, Marshall limits himself to discussion of the confidence of businessmen rather than consumers. He speaks of one trade being confident of another's continuing to buy those items supplied by the first. The impression left with the reader is that this trade confidence, if continued, will supply the income to people which in turn will be spent. The very absence of any mention of consumer confidence provides cause to wonder as to whether Marshall might have assumed automatic expenditure of consumer incomes.

Focal Point of Marshall's Value Determination

Marshall's discussion of confidence between traders, the place of rationality in his entire scheme, his low

estimate of the consumer's abilities to discriminate, and his continued emphasis on the actions of traders rather than exchanges involving consumers provides a strong basis for the view that Marshall's primary scheme of value determination was focused on exchanges prior to that involving the ultimate consumer. If this is the case, marketing theory need not be considered in any sense as a substitute for economic theory but could exist alongside economic theory as an explanation of exchanges involving the final consumer.

Marketing Functions

Marshall has a tendency to think of marketing as confined to the buying and selling of products, and other functions such as storage and transportation are recognized in association with the producer or middleman who assumes responsibility. These functions are thus regarded as not peculiarly marketing with the categorization being based mainly on a judgment as to whether the person performing the function is primarily a producer or middleman.

Because transportation is frequently the responsibility of the producer, Marshall tends to regard it as a form of production. He credits improvements in transportation with having influenced three-fourths of the benefit accruing from manufacture.

Storage and finance are linked closely in Marshall's treatment in that storage represents dollars tied up in stock. He notes that the size of inventory necessary does not increase as rapidly as the markets for goods and detects a trend toward the producers maintaining title longer - sometimes all the way to the ultimate consumer.

Marshall notes that the retention of title by producers encourages an excessive number of traders who can then make high profits in relation to their small investments. Storage and the financing of inventories are expected to constitute a decreasing share of the final price as improvement in transportation advances replenishment procedures. Turnover of stock enters Marshall's discussions repeatedly in continued appreciation of its effect on finance and net profit.

Such marketing functions as grading and branding are viewed as outgrowths of the standardization of products. Grading is discussed from a production or intermediate stage basis with no mention of the grading of products for the final consumer. Brand names are recognized as a form of grade with consumers associating quality and the peculiarities of a product with specific brand names. The importance of brand names in merchandising loss leaders is also cited by Marshall.

Advertising is regarded by Marshall as constructive or combative. The former is viewed as necessary but the latter is treated as a social waste. The advertising which a firm would do if it had no competitors is regarded as the dividing line which identifies the constructive from the combative forms of advertising. Marshall fears the effectiveness of repetitive advertising on the consumer but expresses doubt that it could be successful unless the product offered is a reasonable value. He maintains his fears, however, that large capital formations can be effective in using repetitive advertising to overpower the lesser resources of a smaller firm. He recognizes that tremendous good will embodied in a trademark can be built up as a valuable asset of the firm.

Advances in the technique of advertising seem to evoke mixed feelings from Marshall. He keeps up with the progress of the techniques while at the same time harboring a feeling that the resources of learning are being cheapened by a study of the "educative effect of repetition."

In his study of pricing Marshall makes a major distinction between the rational behavior of both parties in exchanges between producers and middlemen and the irrationality in the final consumer. Consumers are said to lack judgment, thus enabling retailers to charge what the traffic will bear. Retail prices are recognized as

being less flexible than wholesale prices, this being particularly true in regard to falling wholesale prices. Marshall carries the flexibility issue over into quality by noting that quality adjustments are frequently made by the retailer in lieu of price changes.

Marshall recognizes that much strategy occurs in everyday marketing activities as traders act and react to the actions of each other. The guidelines for this activity are set up by a recognition on the part of traders of trade etiquette which restrains retailers from being overly aggressive.

Part of the strategy of merchandising is dumping. Marshall cites examples of it in noting that traders behave differently in markets which are not their own. Dumping in foreign markets is said to grow out of the limitation of collusive agreements which dictate the level of production for sale in home markets.

Extent to Which Marshall's Ideas Are Accepted Today

Marshall's keen awareness of business activity makes his expression concerning actual practices in the market to be without flaw for his day. Indeed, a review of the number of practices of businessmen and consumers which are noted by Marshall and which still persist today would constitute a review of a large part of Marshall's

observations. The generalizations and predictions which he made on some subjects can be viewed, however, in relationship to the extent to which they are accepted today. This section of this paper attempts to identify these generalizations and trends which continue to be accepted and also deals with the differences in approaches assumed by Marshall and present day marketing theorists.

Generalizations and trends which continue to be accepted

The placement of greater emphasis on demand continues to be important in the thinking of present day marketing theorists. This relative emphasis, coupled with the importance of consumption, serve as examples of common direction assumed by both Marshall and current marketing theorists.

Marshall observes the growing complexity of the business world and anticipates a growing need for university training in business matters, so that effective use can be made of the increasing supply of detailed information.

A great many developments in merchandising which Marshall observes continue today. Among the foremost is the continued use (at an increased rate) of brand names in merchandising. Marshall credits the co-operative with having increased the importance of branding in an effort to provide customers with assurance of quality while

buying at lower prices. Brand usage has progressed a great deal until today brands are recognized as a means of obtaining premium prices. A trend toward the use of brands as loss leaders is also noted by Marshall in emphasizing the assurance of quality offered by brand names. This trend continues to be valia today as does his generalization concerning the inflexibility of retail prices in relation to wholesale prices.

Marshall detects a growing tendency toward the presale of products by advertising. He recognizes that this practice will extend, to an increasing extent, to the use of coin operated machines. He also notes the growing strategy of using incentives while introducing a new product to insure that the middlemen will do an effective job.

The growing distance between consumer and retailer is noted by Marshall. He notes the continued growth of chain and department stores in observing the advantages which each have in competition with the small retailer. The growing variety of items being carried by one retailer is also noted as a tendency which is part of the overall advantage of size.

Generalizations and trends noted which are not accepted today

Marshall attributes a great deal more importance to the co-operative than do present day marketing people.

He anticipates that organizations such as co-operatives will continue to prosper and holds out hope that they will be the means by which the need for combative advertising might be lessened. This has not materialized and present day marketing thinkers do not forsee any lessening of this marketing function.

Marshall combines high moral standards with an unceasing faith in the ultimate goodness of man. This idealism leads him to emphasize the temporary nature of trade restrictions and to hold out hope for free interchange of business information. Present day economic or marketing theorists tend to regard laws restricting trade practices as increasingly necessary.

Marketing functions are not identified as such by Marshall. He tends to think in terms of buying and selling as marketing functions with all other functions being production. He reveals an awareness, however, of all those activities that have become to be known as marketing functions.

Marshall's views on credit and fashion are noticeably at variance with the popular views of marketing theorists today. To present day theorists, credit has become an everyday means of stimulating sales. Discussion of the character forming influences are no longer in vogue, and, as a result, Marshall's principle objections to credit are rarely considered today. Time has proved him to be wrong in his prediction that the granting of credit would

lessen as the relationship of consumer and retailer becomes more impersonal.

Fashion is approved of by present day marketing thinkers for the effect it has in contributing to business activity by hastening replacement purchases. The emphasis on scarcity of natural resources which was present in Marshall's thinking does not receive a great deal of attention by present day marketing theorists.

Contrasts in approaches

Marshall's economic model centers upon value determination with ability to measure as an important prerequisite to the inclusion of factors influencing the choice of consumers. Present day marketing theorists have sought ways of including all possible considerations which might influence the decision to purchase. They have concentrated on the ultimate consumer whereas Marshall's emphasis was on transactions between middlemen and those between middlemen and the manufacturer.

Marshall expresses the belief that it is futile to use consumption as the basis for economic theory. He describes demand and supply as equally necessary sides to a transaction but proceeds to place most of his emphasis on supply. The absence of uniformity in the forces of consumption dictated the direction of Marshall's emphasis. The path that most marketing theorists travel today is

along the path which Marshall rejected as not being sufficiently promising to warrant serving as the basis for his theory.

The primary task which Marshall set for himself is one of explaining the forces operating in the market place. Some current marketing theorists think in terms of an explanation but a great many are inclined toward establishing or predicting how an individual firm should act to achieve maximum results. Other current marketing theorists seek an explanation which they hope will serve as both a representation of what is occuring as well as a means of prediction for the firm. The explanation which Marshall seeks is subsidiary to his overall purpose of improving the lot of the ordinary man - the consumer. When Marshall states that consumption is the end of all economic activity, he is expressing a social concern for the consumer. He suggests that economists should represent the consumer in balancing the scales in the power struggle between organized manufacturers and traders and the disorganized consumer.

Present day marketing theorists emphasize the importance of the consumer along entirely different lines. To these theorists, the consumer is primarily a buyer and attention is focused on the reasons or motivation for consumer purchase. The consumer is important to these thinkers because he occupies a key position in marketing

activities. They look and speak of the consumer as king - a king who dictates which goods will be successfully marketed. The powerful consumer is thus regarded as being in a commanding position. Little effort is given to defending such a stalwart whereas much attention is devoted to the analyzation of how the consumer makes his decisions.

The desire to be practical, although strong with both Marshall and with current marketing theorists, manifests itself in different ways. Marshall's practicality reflects itself in a desire to be accurate to the extent of being read and judged by persons directly involved in business operations. He shows no tendency toward the necessity for coming up with something useful in the operation of a firm. His utilitarianism is directed toward the overall subject matter with which he becomes involved but does not dictate a practical utility for everything that is learned. This attitude on Marshall's part is in direct contrast to much present day marketing thought which applies a subtle standard of utility to the firm before being accepted.

Approach to Subject Matter

Marshall's approach to subject matter on the basis of high ideals and noble ends might be sufficient cause for marketing theorists to speculate as to the ends of

this area of study. Perhaps marketing theory calls for some overriding purpose for its existence which will tie this study to the main stream of philosophic pursuit. Marshall says that the economist should represent, or look out for, the interests of the consumer. If adopted by marketing, such motivation would have the effect of divorcing this study from the more mundane business interest in marketing as a means of making more money. The way is not clear but the fact remains that the establishment of nobler ends for this study would certainly constitute a logical starting place of any re-evaluation of the course that attempts at marketing theory have taken to date. Marshall set an example of how idealism can motivate a person's study to the point of great achievement. Perhaps the question this poses for the study of marketing is, "What comparable motivation will bring minds of a great moral purpose to the study of marketing?"

Marshall is a splendid example of dedicated pursuit of subject matter. He has his overall goals but he recognizes that the job is immense. Accompanying this recognition, however, is no sense of futility. On the contrary, Marshall recognizes many compromises which he is forced to make in order to begin his study. His use of the mechanical analogy falls in this category. These compromises were always intended to be temporary and in no

sense did they represent a compromise of his overall aims. He recognizes that the enormity of the job is not reason for not tackling it, but is good reason for seeking satisfaction with whatever success could be achieved in making minute indentations on the subject matter.

The particular methodology that Marshall used may or may not be valuable in the pursuit of marketing theory. Such devices as marginal analysis, the representative firm, and others should exist as part of the marketing theorist's armament, although no one would suggest that it be limited to those. Marshall's real lesson involving methodology is his ability to distinguish methodology from subject matter, and to continually emphasize methodology. This points up the fact that much of his work was a means to an end rather than an end in itself. Marshall's emphasis in this direction might well set an example for marketing theorists. It is very possible that the study of marketing theory should for the present confine itself to methodology. The time consumed in filling in the broad outline of one methodology in an attempt at the creation of a theory of marketing might better be used in continued emphasis on various forms of methodology.

Marshall did not waste time in criticizing other economists. This may have been an outgrowth of his belief that many varieties of people bring different talents to the subject matter. Regardless of the reason, his actions

set a good example of charity toward other writers. He carried this to the extent of generously interpreting their offerings.

In one respect, Marshall probably set a poor example in holding back his ideas from publication. This danger is particularly important in the early stages of the methodological development. The barriers which block one theorist's path may not block another's. A ready willingness to publish insures the freer circulation of ideas and greater progress.

Perhaps the most significant methodological contribution which Marshall can make to the study of marketing theory is the example he set of using several approaches. His reputation as a synthesizer of various approaches is established. He sought truth wherever he could find it. Marshall believed that knowledge was unified in truth and that the pursuit of any topic should be consistent with whatever is already known in the broader stream of truth. The classical, the historical, and the inductive approaches can all be found woven into his writings. This is not done to console anyone, but is done because Marshall recognizes some usefulness and truthfulness in each of these approaches. His breadth is also shown in his use of widely diverse subject matter. His mathematical framework, his biological analogies, and his interest in psychology serve as evidence of this breadth. Marshall's

use of several disciplines parallels the present day emphasis on an interdisciplinary approach to the study of marketing theory. To Marshall the use of several disciplines constitutes the real search for truth wherever it is to be found. This is revealed very forcefully when he states that many economists

> ... are bringing to their studies an unbiassed desire to ascertain the truth, and a willingness to go through with the long and heavy work by which alone scientific results of any value can be obtained. Varieties of mind, of temper, of training and of opportunities lead them to work in different parts of the problem. All are bound more or less to collect and arrange facts and statistics relating to past and present times; and all are bound to occupy themselves more or less with analysis and reasoning on the basis of those facts which are ready at hand: but some find the former task the more attractive and absorbing, and others the latter. This division of labour, however, implies not opposition, but harmony of purpose. The work of all adds something or other to that knowledge, which enables us to understand the influences exerted on the quality and tone of man's life by the manner in which he earns his livelihood, and by the character of that livelihood.[1]

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[1] Marshall, Principles of Economics, p. 13.

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BIOGRAPHICAL SKETCH

Leonard Groeneveld was born on January 6, 1928, in Providence, Rhode Island. He attended the Providence public schools and graduated from Mount Pleasant High School in June 1945. In 1946 Mr. Groeneveld entered the United States Army and served in Army Ordnance until discharged in September 1947 with the rank of Technical Sergeant. Mr. Groeneveld entered the University of Rhode Island in 1947 and graduated in June 1951 with a Bachelor of Science degree after having been elected to Phi Kappa Phi honorary scholastic society.

Mr. Groeneveld was employed by the Western Auto Supply Company in June 1951. After a brief training period he managed a company store until leaving the firm in March 1953 when he joined the Brown & Sharpe Manufacturing Company. While with the latter firm he underwent considerable management training and served in many phases of the company's operations until leaving the firm in 1958.

From 1954 to 1958, Mr. Groeneveld attended Northeastern University in Boston, Massachusetts. After receiving his degree of Master of Business Administration from this school he took a position as Instructor with

Clarkson College of Technology. In 1960, he was promoted to Assistant Professor. Later in the same year Mr. Groeneveld started work on his degree of Doctor of Philosophy at the University of Florida.

Mr. Groeneveld is married and is the father of three children. He is a member of Tau Kappa Epsilon social fraternity and of the American Marketing Association.

This dissertation was prepared under the direction of the chairman of the candidate's supervisory committee and has been approved by all members of that committee. It was submitted to the Dean of the College of Business Administration and to the Graduate Council, and was approved as partial fulfillment of the requirements for the degree of Doctor of Philosophy.

August 11, 1962

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